

**THE DEMOCRATIC REPUBLIC OF
TIMOR-LESTE
COMBINED SOURCES BUDGET
2005-06**



Draft Budget/Background Paper

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INTRODUCTION

ENTERING A NEW PHASE OF DEVELOPMENT

Three years since restoring its independence, Timor-Leste is entering a new stage in its development process, moving well beyond the post-conflict transition phase. In the past years, Timor-Leste has made some progress in rehabilitating basic services and infrastructure, building the democratic state institutions, and strengthening the capacities of the public administration system. However, more needs to be done in these areas, while also improving budget execution, reducing poverty and fostering economic growth. Timor-Leste is in an important stage of implementing its policies so as to ensure that its achievements will be irreversible and sustainable and will allow the country and its people to advance towards a sustainable strong economic growth and poverty reduction.

CONTINUING COMMITMENT TO GROWTH AND POVERTY REDUCTION

Overall, development challenges continue in Timor-Leste. While government service delivery has improved in many areas, the economic situation in Timor-Leste has experienced great difficulties. The economic contraction that began in 2002 is now reducing. Growth is expected to recover in 2005-6. In the long-term, the Government aims to create conditions necessary for the economy to enter a period of strong economic growth determined by private sector economic activity. With a small population and still widespread poverty, domestic demand is not large enough to carry out the level of growth. Therefore, the emphasis of the Government's efforts in the long-term must be on seeking external markets for products and services. As a result it is crucial to attract investment aimed at developing exports

Timor-Leste will continue to face significant challenges in its efforts to reduce poverty. As a result, there is a need to work towards strong economic growth to promote faster progress and achieve a reduction in poverty. However, in the light of its high population growth, indications are that Timor-Leste's average income per capita is expected to further decline, presenting ever increasing demands for government programs targeting those who are on the fringe of the population in situations of severe poverty. Whilst maintaining its strong growth policies in the long-term, the Government cannot however forget its objectives in the medium term of continuing to improve the delivery of basic services to the population, particularly the most vulnerable.

PURSuing STRATEGIES FOR A BETTER FUTURE

To move forward in its pursuit of strong growth and poverty reduction and of steady progress within the ambit of the National Development Plan and the Millennium Development Goals, the Government's strategies envisage the following three challenges:

First, it is critically important that the progress in development is achieved in a way in which tangible benefits can be felt immediately in everyday life of average Timorese. In order to achieve the level of economic growth which is sufficient to absorb a rapidly-growing labor force and to improve income levels, the Government intends to employ a two-pronged approach aimed at promoting growth and investment:

- On one hand, the main source of growth in a long run will be the promotion of private investment in commercial agriculture and non-farm private activity. This will be achieved by developing a regulatory environment and building public infrastructure to support business growth; and
- On the other hand, the Government in a shorter-run will aim for generating employment by increasing public construction activities, while continuing to meet the immediate needs of the most vulnerable fringes of the population.
- In responding to these challenges, the pattern of expenditures on a combined sources basis is undergoing change over the coming years. Important shifts in the sectoral allocation of expenditures are required, to place greater emphasis on, for example, public investment in infrastructure and private sector development.

Second, in order to progress in the two-pronged approach, the capacities of the Government and the entire public administration need continuous and further strengthening. Further steps need to be taken, beyond building institutions and towards strengthening leadership at all levels of public administration and gradually moving forward with deconcentrating with a view to decentralization. In particular, further strengthening of

the Government's program planning, execution, and resource absorption capacities is vital to achieving the Government's objectives.

Third, the Government recognizes the urgent need to expand capacity building efforts beyond public administration, to also strengthen the other institutions or services of other sovereign organs – the Office of the President of the Republic, the National Parliament, and the courts. Elevating the total capacity of the functions attributed by the Constitution to these organs is essential to guaranteeing the deepening and the consolidation of the democracy and the rule of law.

REQUESTING CONTINUED SUPPORT OF DEVELOPMENT PARTNERS

Realizing these ambitious agendas will not be without difficulties, given the volume of work required in the immediate future to develop the capacities of national institutions and staff to better execute their task.

The 2005-06 Combined Sources Budget shows a financing gap over the next four years. Despite large improvements in estimated petroleum revenues, the level of financing required by far exceeds the level of available resources. Timor-Leste will continue to require strong support from its Development Partners, focused particularly on the following three mechanisms and their associated outcomes.

First, the Sector Investment Program is the most important mechanism for the Government to seek assistance from Development Partners in the medium-term future. For each sector, the Sector Investment Program articulates the Government's policy framework and priorities and presents a menu of priority development activities that are essential to achieve the sector goals.

The Sector Investment Program (SIP's) is a landmark initiative that promotes greater national ownership and leadership over setting priorities for external assistance and mobilizing and coordinating resources to meet them. In considering their program of assistance for Timor-Leste, Development Partners are urged to support and consider the priorities articulated in the Sector Investment Program.

Second, the Government requests support for the Consolidation Support Program – a successor framework of the Transition Support Programs of the past three years. The Consolidation Support Program goes beyond an opportune injection of additional financial resources into the State Budget. More importantly, it aims to help Timor-Leste progress into the next phase of its development through strong continued policy dialogue. It is designed to help the Government further strengthen its abilities to assume greater responsibilities for planning, executing, and monitoring its programs in support of the strategies for the future. We request that Development Partners take a lead in providing strong support to the Consolidation Support Program by contributing, to guarantee Timorese autonomy in leading the conduct of these processes.

Third, we request that Development Partners pay special and increased attention to the emerging capacity building requirements which require a response. Moving into the consolidation phase, Timor-Leste is confronted with the need to strengthen the capacities of public and private institutions and the development of human resources. The country seeks to progress in a direction towards sustained growth, increasing the need for strengthening the effective and transparent management of resources. The significant needs exist not only within the Government and the public administration, but also in the other Organs of the State, such as the Court, the National Parliament, and the President of the Republic. Furthermore, in order to support the Government's economic growth strategy, we request strong support in areas such as infrastructure, investment promotion and public finance management.

REDEFINING AND STRENGTHENING PARTNERSHIPS

Standing now at the entrance to the next stage of development, Timor-Leste proposes a new approach to its partnership with Development Partners. It is necessary to strengthen to and adjust future partnerships to the current situation of the country and its emerging challenges in the future.

The guiding principle of the partnerships in this new era is stronger national leadership at all levels. With the continued support of Development Partners, Timor-Leste is now seeking to assume more responsibility for meeting its own development challenges. We must continue in this direction. Of particular importance are the Sector Working Groups that are being established for each external sector category. Led by senior Ministers, the Sector Working Groups will provide the forum where external assistance is planned, mobilized, and coordinated so as to effectively support the sector priorities. .

The Government would like to involve Development Partners in a dialogue in the new stage of our partnerships.

PART 1 - OVERVIEW¹

To date, Timor-Leste has achieved mixed results in implementing the National Development Plan (NDP). There are two major fiscal challenges that Timor-Leste must meet if these NDP goals are to be realized. First, the Government policies and programs articulated in the Sector Investment Programs (SIPs) must be financed and implemented. Second, the Government must budget for higher but still sustainable levels of expenditure from its own revenue and also significantly improve its execution rate of those budgeted expenditures. Development Partners can assist overcoming these challenges through continuing to contribute to the SIPs programs, providing technical assistance and capacity building and contributing to Consolidated Support Program (CSP) assistance.

This Overview describes issues in: the Combined Sources Budget; the General Budget of the State; budget execution; savings policy and the Petroleum Fund; further work to develop the SIPs; defining the CSP; and policies to increase economic growth. It concludes with tables showing the consolidated fiscal position for Timor-Leste, including as a share of GDP.

COMBINED SOURCES BUDGET

The 2005-06 Combined Sources Budget shows a financing gap over the next four years. This arises because the total estimated expenditure level in the SIPs is greater than the total financial resources available from expected sustainable State Budget expenditure levels and the expenditure commitments currently made by Development Partners. Closing this financing deficit is the first major fiscal challenge for Timor-Leste and its Development Partners.

The SIPs estimate that about \$988m of expenditure or about \$247m per year is required over the next four years to better implement and achieve the objectives in the NDP and the objectives of the Millennium Development Goals for Timor Leste. This estimate is the result of a broad ranging analysis of the development needs of Timor Leste, a reasonable financial contribution from Development Partners and the capacity of development projects to be implemented and executed in Timor Leste. A lower level of expenditure will compromise the poverty reduction strategy drawn up by the Government and lead to poorer rates of economic and social development in Timor Leste.

The Government is determined to manage its own resources wisely and to avoid the “resource curse” that has afflicted so many other resource-rich developing countries. Accordingly, Timor-Leste will spend at a sustainable level and save its remaining revenue in the Petroleum Fund, thus respecting the principle of generational justice in the utilization of resources which are not renewable. While the outlook for the petroleum industry always contains risks, high oil prices in world markets (for both current and expected future prices) and successful development of the Bayu Undan project have led to strong current and expected budget revenues. Timor-Leste will pursue a strong savings policy using its Petroleum Fund to: build significant savings of petroleum revenues; as a mechanism of investment to conserve the value of the resources; attainment of incomes; and thus ensure future generations also benefit from current petroleum revenues.

The sustainable level of expenditure is now estimated at about \$150m in 2005-06 rising to about \$170m in 2008-09. Therefore, the Government will simultaneously pursue a strong expenditure policy with very significant increases in expenditure in 2005-06 and the years beyond. For example, expenditure in 2005-06 will increase by over 35 per cent. The Mid Year Review and future Budgets will be used to further increase expenditure towards the estimated sustainable level of expenditure and to monitor the level of budget execution rates. Government intends that State Budget expenditure as a percentage of total expenditure will increase markedly from a relatively small proportion (about 40 per cent) of combined sources expenditure in 2004-05, to half of expenditure in 2005-06 and to a major proportion (about 70 per cent) of expenditure in 2008-09.

The remainder of the combined sources expenditure will consist of bilateral and multilateral programs that are funded by Development Partners. The Register of External Assistance (REA) shows that the

¹ “In the Overview, total SIPs expenditure is drawn from Table 12 of the SIP Overview Paper, Vol 1. See also footnotes in Part 6 – Expenses.”

expenditure commitments made by Development Partners decline to very low levels over the next four years. For example, they decline from about \$108m in 2004-05 to about \$58m in 2005-06 and further decline to about \$6m in 2008-09. Obtaining commitments to expenditure by Development Partners consistent with the development needs of Timor-Leste is the first major challenge for Timor-Leste and its Development Partners. Government requests Development Partners to work through Sector Working Groups to commit to additional programs identified in the SIPs.

Table 1.1 shows the estimates of expenditure, revenue and financing for the 2005-06 Combined Sources Non-Petroleum Budget, including contributions from the Budget and Development Partner contributions. Table 1.2 shows the estimated development of the Petroleum Fund and CFET Balance, pending a decision as to how much to transfer to the Petroleum Fund on 1 July, 2005.

Table 1.1
The Combined Sources Non-Petroleum Budget 2004-05 to 2008-09 (\$m)

	2004-05	2005-06	2006-07	2007-08	2008-09	4 Year Total
Total Expenditure in SIPs	197	234	259	262	233	988
Budget of the State	87	119	118	124	123	484
Development Partners	110	115	141	138	111	505
Total Financing	195	177	149	138	129	593
General Budget of the State Commitments	87	119	118	124	123	484
Development Partners Commitments	108	58	32	14	6	109
Total Financing Gap	(2)	(57)	(110)	(124)	(104)	(395)
Indicative Future General Budget of the State Commitments	-	-	16	32	46	94
New Commitments Required from Development Partners	2	57	94	92	58	301

Table 1.2
Estimated Balances of the Timor-Leste Petroleum Fund 2005-06 to 2008-09 (\$m)

	2004-05	2005-06	2006-07	2007-08	2008-09
Balance (start of year)	14	63	153	291	424
+ FTP/Petroleum Revenue	49	159	186	181	219
- Withdrawals	0	73	57	61	65
+ Interest	0	5	9	13	19
= Balance (end of year)	63	153	291	424	597

As always, these estimates are subject to risks and uncertainties. The greatest uncertainties lie with world oil prices and with expenditure commitments by Development Partners for Bilateral/Multilateral programs.

For example, in 2004 world oil prices fluctuated between \$32 and \$56 or within a \$24 band. This high level of volatility has very serious consequences for Timor-Leste. Chart 1.1 shows fluctuations in world oil prices and the assumption underlying the revenue estimates in the 2005-06 Budget. Importantly, it illustrates the large risks concerning future movements in world oil prices, with the likelihood that oil prices could be much higher or much lower than assumed.

**Chart 1.1
Oil Prices Movements and Assumptions 1986 - 2011**

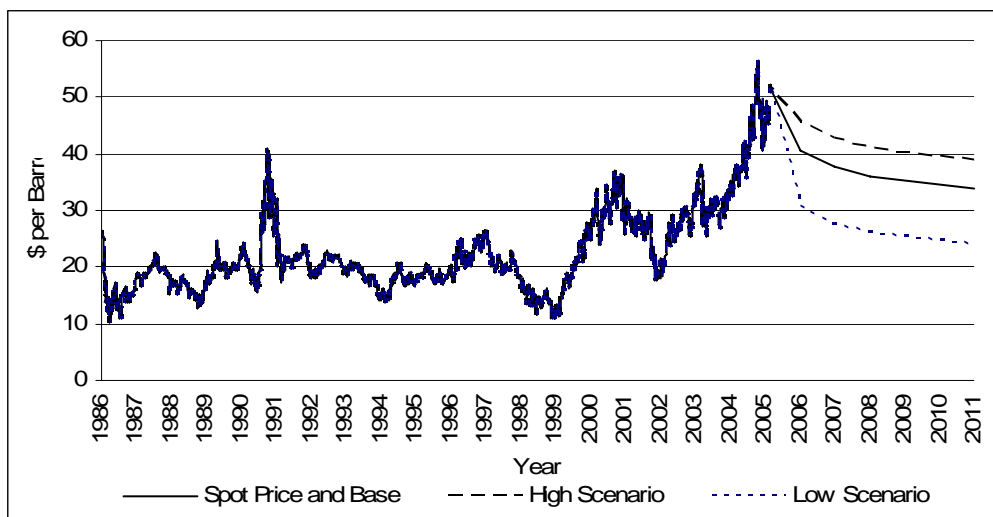


Table 1.3 shows that a High Case scenario, where prices are just \$5 higher than assumed for the Base Case, would lead to very large fiscal surpluses. However, it also shows that in a Low Case scenario, where prices are just \$10 lower than the Base Case, there would be only small fiscal surpluses which would then mean that expenditure policies would be unsustainable and the Government's fiscal strategy would need to be revised.

**Table 1.3
Whole of State Fiscal Balance under Base, High and Low Cases for oil prices**

	2005-06	2006-07	2007-08	2008-09	4 Year total
Base Case	86	129	120	153	488
Low Case	15	41	28	31	115
High Case	118	162	149	305	735

POSITION OF THE GENERAL BUDGET OF THE STATE

The most significant developments in the medium-term State Budget position since the 2004-05 General Budget of the State arise from the significantly higher levels of petroleum revenue into the Petroleum Fund. This initiates strong growth in State Budget expenditure, a closing of the State Budget deficit shown in the last General Budget of the State and significant savings in the Petroleum Fund. The medium-term State Budget position is shown in Table 1.4.

**Table 1.4
General Budget of the State 2004-05 to 2008-09 (\$m)**

	2004-05 Est	2005-06 Est	2006-07 Est	2007-08 Est	2008-09 Est	Total 4 Yrs
General Government						
Total Revenue	306	206	235	232	263	936
Domestic Revenue	33	36	39	41	44	160
Domestic Taxes	27	27	28	29	30	114
Other Domestic Revenue	6	9	11	12	13	46
Petroleum Revenue	243	159	186	181	219	744
Petroleum Tax	194	112	135	127	113	487
Timor Sea Royalties and Interest (FTP)	49	41	42	41	86	210
Other Petroleum Revenues	0	6	9	13	19	47
Direct Budget Support	31	11	11	11	1	32
Total Expenditure	79	109	106	112	110	437
Salaries	28	29	31	32	34	126
Goods and Services	34	45	45	45	46	181
Subsidies (to NFPA)	5	4	4	6	5	19
Minor Capital	2	5	4	4	4	17
Major Capital Undertaken by General Government	9	24	19	23	18	85
Major Capital Subsidised by General Government	0	2	2	3	3	9
General Government Budget Balance	228	97	129	120	153	499
Total Investments	0	11	0	0	0	11
Capitilisation of BPA	0	11	0	0	0	11
Capital Development in Public Authorities	0					
General Government Fiscal Balance	228	86	129	120	153	488
Non Financial Public Authorities						
Revenue						
Net Transfers from General Government	5	6	6	8	8	28
Non Financial Public Authorities Revenue	8	10	12	12	13	47
Expenditure						
Non Financial Public Authorities Expenditure	14	16	18	20	21	75
Non Financial Public Authorities Budget Balance	-0	0	0	0	0	0
Whole of State Fiscal Balance	228	86	129	120	153	488

State Budget revenues are now estimated to be much stronger than before, as discussed in Part 4. This is due to stronger petroleum revenues. Stronger petroleum revenues arise from high world oil prices, with prices now above \$50 per barrel after fluctuating between \$32 and \$56 per barrel since the start of 2004. Further, markets now expect the future oil price to be much stronger than previously, with markets expecting the oil price in 2010 to be about \$38 at the time of forecasting, which is higher than \$28 as expected a year ago.

The Government's policy is to spend, but to spend wisely. With higher petroleum revenues, an increase in State Budget expenditure is planned. For example, it will increase from \$79m in 2004-05 to \$109m in 2005-06, which is an increase of over 35%. The Government plans to review and update its expenditure decisions in the Mid Year Review and future Budgets with the intention of increasing expenditure over the medium term to its sustainable level.

Much of this increase in expenditure will be achieved by using State Budget expenditure to provide core and ongoing responsibilities of the public sector that were previously funded by Development Partners or that have been identified through the SIPs exercise. Steps have been made towards this objective in 2004-05 with a number of activities and inputs being brought onto the State Budget, as shown by the following examples.

- Ministry of Health, the establishment of a forensic pathology laboratory
- Ministry of Agriculture, Forestry and Fishing, the establishment of an off-shore fishing and licensing regime, expanded agriculture extension services and the creation of a regional office network to better service the regions

- Ministry for Defense, taking over the logistics support outsourced contracts.
- Upgrading the Government's shared communication and information technology systems.
- The implementation of the Timor Leste identity card.
- Administration of the new investment laws.
- Meeting rising demands for Education and Health funding due to population and participation growth.

Further information on expenditure is contained in Part 6.

GENERAL BUDGET OF THE STATE EXPENDITURE EXECUTION

Though the Government wishes to increase service delivery and reduce poverty through State Budget expenditure as soon as possible, and expenditure is still below its estimated sustainable level, other constraints limit the increase in expenditure in 2005-06. It takes time to develop expenditure plans that will offer value for money and that will be executable. Importantly, execution rates on expenditure in 2004-05 are still much lower than desired, which suggests that good planning for further expenditure is essential to achieving good outcomes.

The current major constraint on growth in expenditure is the capacity of the civil service to execute projects and implement programmes. Much attention has been paid to this issue over the last year. Improved Budget execution will require a mixture of responses including: structural change; review and reform of processes; and improved knowledge of the system of procurement by all parties. The necessity to increase execution rates is shared by Government and Development Partners. Some measures have already been taken and others will be needed to improve budget execution in 2005-06 to a higher level than that in the current fiscal year. Some of the measures taken are as follows:

- The SIPs have developed expenditure programs with the objective of meeting targets established in the NDP. Work on refining and implementing these SIPs programs will be realised by Government and Development Partners in Sector Working Groups.
- Changes to the structure of Government such as the realignment of Ministries and the appointment of a number of additional Secretaries of State are a direct response to this issue.
- The Prime Minister established last year and has overseen a committee to examine and monitor budget execution by line ministries.
- Finalising reviews of the procurement processes within the Ministry of Planning and Finance (MOPF) which, amongst other things, have resulted in consideration of an increase to the threshold for purchase made directly by line ministries without having to engage central approval processes administered by MOPF. Consideration is also being given to a range of issues impacting on the administration of State Budget expenditures in the districts
- Further work is planned to better educate and inform Ministries on the procurement process and how to work within them.
- The Ministry of Education and Culture has assigned a senior staff member to liaise with the Ministry of Planning and Finance in order to improve execution rates in that Ministry. This practice has been successfully employed by the Ministry of Health for some time.
- Following the example of the Ministry of Health, the Ministries of Education and Culture, of Agriculture, Forests and Fisheries, and of Public Works have already nominated an employee to work directly with procurement to speed up the procurement processes and thus improve the levels of budgetary execution.

These measures will improve budget execution for the 2005-06 fiscal year. The Government is committed to the continuation of efforts to improve execution rates.

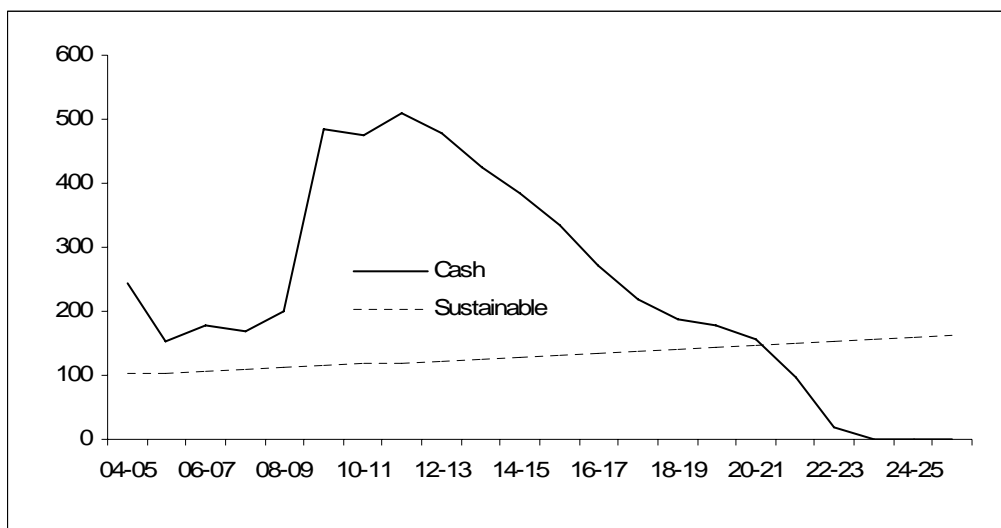
SAVINGS POLICY AND PETROLEUM FUND

Most resource-rich developing countries have suffered from the “resource curse”. One mistake that these countries have made is to spend all their revenue as it arrives, which leaves them with no saving for the future and with expenditure levels that fluctuate with commodity prices.

The Government is determined to avoid repeating the mistakes of other resource-rich countries. Instead, it has adopted a savings policy and is creating a Petroleum Fund to hold and manage its savings of petroleum revenues.

The key to the Timor-Leste savings policy is that actual expenditures should adjust over the medium-term to the sustainable level of expenditure. This sustainable level is based on estimated current and future petroleum revenues. It is the level of expenditure that can be sustained indefinitely, including increasing with inflation. Chart 1.2 compares petroleum revenue excluding interest to the level of sustainable expenditure from petroleum revenue.

Chart 1.2
Estimated Petroleum Revenue and Sustainable Expenditure from Petroleum Income



The Petroleum Fund will act to accumulate large levels of savings from petroleum revenues. It will also act as a buffer to fund expenditure should there be any temporary shortfall in petroleum revenues. In this way, withdrawals from the Petroleum Fund can fund stable and sustainable levels of expenditure even though petroleum revenues may fluctuate considerable.

The Government’s savings policy has the following advantages.

- The Petroleum Fund should accumulate significant levels of savings to benefit future generations of Timorese.
- The Petroleum Fund savings should generate significant interest income, particularly when petroleum revenues have ceased.
- Temporary fluctuations in world oil prices will have little effect on expenditure, as savings will fluctuate instead.
- Permanent changes in revenue will change the estimated sustainable level of expenditure, and this will result in adjustments of expenditure over the medium term, so as to minimize disruptive changes in expenditure plans.

The Government is establishing a Petroleum Fund to commence operations on 1 July 2005. In late 2004 it undertook public consultations in Dili and in all the headquarters of the remaining districts, and through the Government website on policy of establishing a Petroleum Fund. In 2005 the draft Act establishing the Petroleum Fund was posted on the Government website for comments and suggestions, and a similar process was directly undertaken in Dili. The draft Act has already been approved by the Council of Ministers.

The design of the Petroleum Fund and the corresponding draft Act is based on the following key principles:

- The Petroleum Fund shall be a tool that can contribute to the wise management of Timor-Leste's petroleum resources, for the benefit of both current and future generations.
- The Petroleum Fund builds on international best practice and reflects the circumstances of Timor-Leste with additional accountability, transparency and information features.
- The Petroleum Fund builds on the Constitutional requirement for the "establishment of mandatory financial reserves" as laid down in article 139, and giving to the Parliament and the Government the powers that correspond to their competencies.
- The Petroleum Fund allows for a strengthening of the responsibilities, powers and capacity of key public sector institutions, such as Parliament, the Government, the Ministry of Planning and Finance and the Central Bank, including an independent Consultative Council to advise Parliament and act as a "watchdog".
- The Petroleum Fund is to be a tool that contributes to sound fiscal policy, helping to strike the right balance between spending now and investing in financial assets.
- The Petroleum Fund is to be prudently managed, invested securely in low-risk financial assets abroad.
- The management of the Petroleum Fund shall be carried out with the highest standard of transparency and accountability, including a website as approved by the Prime Minister.

More information on the underlying principles and the operation of the Petroleum Fund is in Part 5.

SECTOR INVESTMENT PACKAGES (SIPS)

The starting point for the development of the SIPS was the priorities identified in the NDP, objectives of the Millennium Development Goals and the huge development needs of Timor-Leste. The magnitude of these development needs is illustrated by many indicators, including the low level GDP per capita, high death rates, high levels of illiteracy and low levels of public infrastructure.

The SIPS emerged from a broad ranging analysis of the policies and programs that Timor Leste needs to introduce in the next few years to meet those MDG targets: taking into account a realistic assessment of the available financial resources and speed with which new projects or programs can be implemented given the capacity of the Civil Service.

Accordingly, the 17 individual SIPS provide an opportunity to:

- focus on achieving the NDP and MDG targets;
- build and implement medium-term plans for the public sector in Timor Leste; and
- achieve better coordination between Development Partners and between Timor Leste and Development Partners.

The next step is to implement the policies and programs in the SIPS. Sector Working Groups (SWGs) are being established to provide a forum for Government and Development Partners to discuss the sectoral priorities and to develop plans to execute agreed programs and projects. For each category of sectors, a Sector Working Group is being set up under the leadership of the lead government agency in that sector. The Sector Working Groups are to be chaired by a senior Government Minister and are open to any donor who has an interest in the particular sector. They provide a forum for the Government and Development Partners to develop a common understanding of sectoral priorities and match donor interests with specific projects identified as priority by the Government. This mechanism provides an opportunity to strengthen the Government's leadership in mobilizing the necessary resources to carry out the SIP program and at the same time ensuring coordination of activities within the sector

Each Working Group and its Chairperson (normally the Minister of the leading sectoral ministry) are supported by a dedicated Secretariat. Each Secretariat will be composed of representatives from the lead and other relevant sectoral ministries, the Ministry of Planning and Finance, and interested Development Partners, and will provide organizational and administrative support to the smooth functioning of the Working Group. The Government plans to have all ten Sector Working Groups established and functioning by mid-2005.

Development Partners are invited to:

- participate in these SWGs and support their respective secretariats;
- mobilize resources for the SIPs projects; and
- adjust their bilateral and multilateral projects to meet the Government's priorities and programs, as outlined in the SIPs.

The SIPs will be monitored, reviewed and adjusted each year in the light of discussions, commitments and experience. Development Partners are invited to contribute to that process. More information on the policies contained in the SIPs is contained in Part 2.

CONSOLIDATION SUPPORT PROGRAM (CSP)

The Transition Support Program (TSP) was successful because it was an effective partnership mechanism between Government and Development Partners. It allowed Development Partners to contribute directly to the core responsibilities of the Government with both ideas and finances, including dealing with the practical opportunities and challenges that confront an administration that is still young and developing. It provided a regular policy and administration dialogue between Government and Development Partners that was focused on the agreed development needs of Timor-Leste and assisted the administration to better achieve Government policies.

Development Partners are invited to participate in the CSP, which will repeat this successful formula. Like the TSP, the CSP will involve an independent review that assists monitoring and evaluation, and which is the basis for finding solutions to problem. The focus will be on helping Government to increase its expenditure levels to cover core responsibilities of Government while making its administration more efficient and effective. It will:

- support the Government's overall planning and Budget processes;
- help build capacity in the Government's own systems;
- strengthen coordination between Development Partners and between Government and Development Partners;
- promote coverage of cross-cutting issues, such as oversight institutions, gender, transparency, etc; and
- promote a results oriented administration working to a specific timetable.

Given the changed fiscal environment of the General Budget of the State, but being mindful of the extra focus that comes with a financial contribution, Government is asking for a CSP of \$10m to \$15m per year for the next three years. This is less than ten per cent of the total contribution that Development Partners will make over this time, but is an opportunity for Development Partners to assist Government to wisely spend its own expenditure of over \$100m per year.

Following successful meetings on the CSP in early 2005, Government has drafted an action matrix, increased its expenditure levels accordingly and invites Development Partners to commit to the new programme – the CSP.

POLICIES TO INCREASE ECONOMIC GROWTH

contracted during 2002 and 2003. More recently, partial indicators have been mixed and it is likely that non-oil economic activity has now started to rise again. Non-oil GDP is expected to grow more quickly in 2005-06 and beyond, being fuelled by rising State Budget expenditure and by a modest increase in Development Partner programs under the SIPs.

Timor-Leste's preliminary National Account estimates show that real Non-oil GDP grew during 2001 but

The Government intends to employ a two-pronged approach aimed at promoting growth and investment. This is to achieve the level of economic growth required to absorb the rapidly-growing labour force and improve average income levels.

First, the main source of growth in a long run will be in the private sector, with private investment in commercial agriculture and non-farm private activity being very important. Government will promote this by creating a pro-business legal and regulatory environment, undertaking vigorous efforts to promote investment opportunities among domestic and international investors and by putting in place the public infrastructure that will attract business. This is a large task for a new country and it may take some years to develop and complete this agenda.

Second, the Government will aim to generate employment next year and in the medium term by increasing public construction activities. A wide range of public construction activities are contained in the SIPs. The purpose of this construction is to provide the infrastructure required to deliver services to meet the Millennium Development Goals and so assist the needs of the most vulnerable people in Timor-Leste. It will also help provide the public infrastructure that business needs. In both cases it will create employment in the private sector, including in the Districts where many of the needs for infrastructure are greatest.

The Mid Year Review and future Budgets are intended to contain further increases in State Budget expenditure, subject to financing from the Petroleum Fund and good expenditure proposals. Those further increases will lead to further increases in the forecasts of Non-oil GDP growth rates.

These Government strategies will offer direct employment opportunities in the private sector, while also building the level of public infrastructure required to both meet NDP and Millennium Development Goals and attract businesses and investment to Timor-Leste. They will also involve the creation of an attractive pro-business legal and regulatory environment. The assistance of Development Partners is requested in implementing these strategies. Further information on these issues is contained in the SIPs Papers, including the Overview.

**Table 1.5
Combined Sources Budget 2004-05 to 2008-09 (\$m)**

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Yrs
	Est	Est	Est	Est	Est	
Total Combined Sources Revenue	423	274	278	258	282	1,092
Whole of Government Revenue	284	205	236	234	275	951
Petroleum Revenue	243	159	186	181	219	744
Domestic Revenue	33	36	39	41	44	160
Autonomous Agency Revenue	8	10	12	12	13	47
Funding from Other Governments	139	68	42	24	7	141
Direct Budget Support	31	11	11	11	1	32
Non Budget Support	108	58	32	14	6	109
Total Combined Sources Expenditure	197	234	259	262	233	988
Whole of Government Expenditure	87	119	118	124	123	484
General Government	73	103	100	104	102	409
Non Financial Public Authorities	14	16	18	20	21	75
Bilateral and Multilateral Expenditure	108	58	32	14	6	109
Recurrent Expenditures	73	27	11	5	2	45
Capital Expenditures	35	30	20	9	5	64
Unfunded SIP Activities	2	57	110	124	104	395
Proposed Recurrent Expenditures	1	27	39	41	30	138
Proposed Capital Expenditures	1	30	71	83	74	258
Other Financial Transactions and Investments	228	97	129	120	153	499
Capitilisation of BPA	-	11	-	-	-	11
Net Accumulations to Petroleum Fund	49	86	129	120	153	488
Changes to CFET Reserves	179	-	-	-	-	-
Combined Sources Financing Gap	(2)	(57)	(110)	(124)	(104)	(395)

**Table 1.6
Combined Sources Budget 2004-05 to 2008-09 (% of GDP)**

	2004-05	2005-06	2006-07	2007-08	2008-09
	Est	Est	Est	Est	Est
Total Combined Sources Revenue	120.5	71.7	68.4	59.6	61.7
Whole of Government Revenue	80.9	53.9	58.0	54.0	60.1
Petroleum Revenue	69.1	41.6	45.7	41.8	47.8
Domestic Revenue	9.5	9.5	9.5	9.4	9.5
Autonomous Agency Revenue	2.3	2.7	2.8	2.8	2.8
Funding from Other Governments	39.6	17.9	10.4	5.6	1.5
Direct Budget Support	8.7	2.8	2.6	2.4	0.1
Non Budget Support	30.8	15.1	7.8	3.1	1.4
Total Combined Sources Expenditure	56.2	61.4	63.7	60.5	51.0
Whole of Government Expenditure	24.8	31.3	28.9	28.7	26.8
General Government	20.9	27.1	24.5	24.0	22.3
Non Financial Public Authorities	3.9	4.2	4.4	4.7	4.5
Bilateral and Multilateral Expenditure	30.8	15.1	7.8	3.1	1.4
Current Recurrent Expenditures	20.7	7.2	2.8	1.0	0.4
Current Capital Expenditures	10.1	7.9	5.0	2.1	1.0
Unfunded SIP Activities	0.5	15.0	27.0	28.7	22.8
Proposed Recurrent Expenditures	0.4	7.1	9.6	9.6	6.6
Proposed Capital Expenditures	0.2	7.8	17.4	19.1	16.2
Other Financial Transactions and Investments	64.9	25.3	31.7	27.8	33.5
Investments	-	2.8	-	-	-
Net Accumulations to Petroleum Fund	13.9	22.6	31.7	27.8	33.5
Changes to CFET Reserves	51.0	-	-	-	-
Combined Sources Financing Gap	(0.5)	(15.0)	(27.0)	(28.7)	(22.8)

PART 2 - KEY DEVELOPMENTS IN THE NATION

In its third year since the restoration of independence, Timor-Leste continued to make gradual yet steady progress in achieving some of the goals set in its National Development Plan, while realizing that it needs more assistance to achieve other goals. Poverty reduction and the promotion of rapid, equitable and sustainable economic growth to improve the well-being of all Timorese population remain the overriding goals of the country's development. During the fiscal year 2004-2005, Timor-Leste continued to steadily develop policies in this direction to attempt to overcome the very significant development challenges that remain, consolidating the progress made to date and tackling new challenges as it now enters a more advanced phase of its development – well beyond the post-conflict relief, rehabilitation and recovery stage, into the medium and longer-term development.

Timor-Leste, with technical and financial support from its Development Partners, continued its efforts in strengthening democratic institutions and the rule of law; delivering essential services to the Timorese people; and strengthening the foundations for generating employment and promoting economic growth. Progress and developments in the country during 2004-05 are summarized below.

GOVERNANCE

Legal Framework: During 2004-05, Timor-Leste continued to make tangible progress in strengthening its legal framework, and some key legislation was adopted by the National Parliament. These included, for example, the Law on the Council of State and the Organic Law of the Superior Council for Defense and Security, promulgated on 3 and 17 February 2005, respectively. The Council of Ministers approved Laws on Foreign and Domestic Investments on 9 February 2005, which has now been sent to the Parliament for review and approval. While legislative efforts continue, the Government has also set up a five-person Commission to review and harmonize all the relevant laws to ensure consistencies among them.

Suco Elections: Decentralization is an important means to ensure the sustained participation of Timorese people in political life at the local level. The local elections for Suco Chiefs and Suco Councils - the first elections held since independence and the first ever conducted by Timorese authorities - are being held in a phased manner. The elections were successfully conducted in the districts of Bobonaro and Oecussi in December 2004 and in the districts of Lautem, Baucau, and Manatuto in March 2005. It is important to note the initiative taken to promote women's participation, with the electoral law providing for a minimum of three women to be elected to each village council. The elections in the eight remaining districts are scheduled for April-June 2005. The Suco elections are an important step towards decentralization and democratic decision-making at the local level.

Civil Service Reform: At the core of good governance is a functioning civil service. Much work has been done in strengthening the legal and regulatory framework for the civil service. The Civil Service Act was promulgated on 8 June 2004, including the ethics code and a section on disciplinary procedures. The National Institute of Public Administration has begun training courses for civil servants to promote good understanding of the obligations under the Civil Service Act. Efforts are under way to prepare supplementary legislation, regulations, and procedures, necessary to put the Civil Service Act fully into operation. Effective human resources management is the backbone of the civil service system. Data collection and verification of personnel files were completed in January 2005 with an aim of creating a Personnel Management Information System. The next step is to develop a computerized system to maintain and manage these records.

Public Financial Management: The Government is proceeding with a number of measures designed to address the problem of budget execution. On the initiative of the Prime Minister, a committee was formed to oversee and improve budget execution. Other actions include: (i) preparation of agency procurement plans in 2004-05 in key sectors and reporting on progress; and (ii) assessment of funds release requirements through the negotiation of front-loaded Expenditure Authorization Notices in key sectors. It is hoped that these measures will lead to a significant improvement in budget execution in key sectors, without sacrificing the quality of spending. Another noteworthy activity is the work undertaken to prepare the 2005-06 National Budget on a combined sources basis.

Transparency & Accountability: Transparency and accountability are key to ensuring good governance. The Organic Law for the Office of the Provedor for Human Rights and Justice was approved by Parliament and promulgated by the President in May 2004. The Provedor is mandated to collect information on human rights abuses and administrative malpractices, including corruption, receive and respond to complaints from the public, and increase public awareness of citizens' rights and means of redress. The Provedor has now been elected by Parliament. The Inspector-General has been nominated, reporting directly to the Prime

Minister, and is pursuing measures to strengthen internal audits and controls, that would contribute to building an effective civil service free of corruption and nepotism.

Justice: Efforts continued during 2004-05 to train Timorese court officials and improve judicial service delivery. The evaluations of the national judges took place in 2004, and the prosecutors and public defenders are currently being evaluated. In January 2005, it was announced that all national judges had failed to pass the evaluations and would thus not be eligible for conversion of their appointment from probationary to career judges. International judges are maintaining the justice system while 40 nationals are currently pursuing full-time training, scheduled for completion in mid-2006, upon which they may choose to become prosecutors, defenders, or judges and enter a one-year probationary period during which they will work under the mentoring of an international professional. It is, therefore, hoped that by June 2007 a cadre of qualified national professionals will be in place to take over more of the functions currently carried out by the international legal professionals.

Law Enforcement: The Timor-Leste National Police (PNTL) took over the command of the policing function from the United Nations Mission of Support to East Timor (UNMISSET) on 20 May 2004. With support from multilateral and bilateral partners, much progress has been made in institutional strengthening and training of national police officers. It is important to note that training and other efforts have also contributed to greater mainstreaming of gender perspective in the work of the National Police. Efforts also focused on measures to increase the trust and confidence of the community. An independent review commission for police complaints has been established to monitor cases being investigated by the Professional Ethics Office.

Defense Force: The capacity of the Timorese defense force continued to be strengthened, through training and skills and knowledge transfer. 258 new personnel are scheduled to complete training in late March 2005, and the recruitment and training of an additional 70 soldiers are planned for the next six months. Work for developing a defense plan, "Defense 2020," made some progress, with a series of workshops held in December 2004, and will continue in the future. Special attention continued to be paid to building the capacity of the Border Control Unit.

Reconciliation: In an important step forward towards reconciliation, Timor-Leste and Indonesia agreed, on 14 December 2004, to establish a Truth and Friendship Commission to deal with the issues of the reported human rights violations in 1999 as well as other bilateral issues. The Terms of Reference for this Commission are currently being finalized. Within Timor-Leste, the Commission for Reception, Truth, and Reconciliation concluded its public hearings and research work and is in the process of preparing its final report before the end of its mandate on 7 July 2005. The report will provide the first independently researched account of human rights violations committed in Timor-Leste between 1974 and 1999.

Veterans: Also important for national reconciliation is the issue of veterans. A National Dialogue between veterans and State institutions was held on 21 August 2004 and a final declaration was issued outlining the commitments of the two sides. Based on the work of the Commission for Former Combatants Affairs and the Commission for Veterans Affairs, the Parliamentary Ad Hoc Committee on Veterans Affairs is finalizing its report, which is to include a set of recommendations regarding a future law on veterans. Furthermore, the President of the Republic has constituted the Commission for Resistance Cadre Affairs to identify civilian members of the resistance.

BASIC SOCIAL SERVICES

One of the key goals of the National Development Plan is to improve the health and education status of the population. The provision and effective use of basic social services is important to break the poverty cycle. Since independence in 2002, Timor-Leste has made great progress in enhancing its people's access to social services, including basic education, primary health care, clean water, and safe sanitation.

Education: Access to schooling improved considerably, with primary school enrolment rising steadily. The net primary enrolment rate is currently 76 percent for boys and 74 percent for girls. On the other hand, repetition and dropout rates remain high, at 20 percent and 10 percent, respectively. Given this, priority efforts are now focused on improving the internal efficiency of the schools system as well as quality of teaching. The Government is currently finalizing an education sector policy which sets out the priorities and strategies for the sector in the next five years. The Government has also spearheaded a curriculum reform process for primary education. The Curriculum Reform Plan for primary education has been endorsed by the Council of Ministers in 2004. The syllabi for primary education have also been approved and are being piloted in three regions for a one-year period, starting in March 2005. Training of teachers has already been delivered to 75 percent of pre-secondary education teachers and is continuing.

Health: The Government has made good progress in restoring the basic infrastructure for immunization, a key to reducing child mortality. In the second quarter of 2004-05, Timor-Leste achieved the 73 percent immunization rate both for diphtheria, pertussis and tetanus and for measles exceeding the year's targets of 72 and 70 percent, respectively. Improvement was also made in maternal and neonatal health, as shown by the fact that in the second quarter of 2004-05, 47.6 percent of deliveries were supervised by skilled health

staff, against the year's target of 50 percent. Access to and use of public health services, though still difficult, also improved, as out-patient visits were 2.2 per capita in December 2004, compared to the target of 2.35. The situation of safe water and sanitation, though still difficult, is improving especially in urban areas. It should, however, be noted that these performance indicators will be lower when the new census data is taken into account.

Demographic Data: Timor-Leste completed the first national Census in September 2004, and preliminary results have been subsequently released. These show a population increase of 17.4 percent, compared to the results of the 2001 suco survey. Data from the Demographic and Health Survey has also become available. It indicates that Timor-Leste has one of the highest population growth rates in the world – about 4 percent per annum, although it should be noted that some of this growth, perhaps accounting for up to 1% per annum, is due to the return of refugees from West Timor. This new demographic information has obvious implications in the sectors directly responsible for delivering basic social services to the population. The Government faces greater challenges in these sectors as it has to provide health and education services to a greater number of people.

Decentralization: In both education and health sectors, the Government is continuing with efforts to promote decentralized management, which will not only improve efficiency in channeling resources for service delivery, but also provide a framework for bottom-up accountability. In the health sector, micro-policy documents have been completed, which are intended to be disseminated to support district/hospital-level planning, priority-setting, and budgeting. District and hospital health plans, budgeting, and monitoring have been introduced. In education, a pilot scheme, where schools demonstrating good management capacity are provided with block grants, has been launched in January-February 2005. This is being piloted in seven schools, to each of which a grant of US\$3,000 per year has been provided. Parent and teacher associations and School Councils are to play a decisive role in the management of these grants.

PRODUCTION RELATED SECTORS

Private Sector Development: The private sector must increasingly become the primary source of growth in incomes and employment for Timor-Leste. The Government recognizes that a major effort is needed to stimulate private business and investment actively. Therefore, the Government continues to develop legal and regulatory frameworks for business and investment.

During 2004-05, the domestic and foreign investment laws were approved by the Council of Ministers. A decree law on Cooperatives was also approved by the Council of Ministers. The insurance law and its associated instructions were approved in general by the Council of Ministers and the Parliament, and are presently in the Commission of Economics and Finance of the Parliament for development of specific detailed provisions. A draft law on bankruptcy has been prepared. With regard to land and property, a decree law on the leasing of government property was approved by the Council of Ministers and was promulgated in December 2004. A draft law on the leasing between private parties is drafted and under discussion in the Parliament.

With the appointment of a Chief Executive, the Investment and Export Promotion Agency (IEPA) is expected to be fully operational by the end of 2005. The Banking and Payment Authority (BPA), which has been carrying out most of the functions of a central bank, is planned to be officially transformed into the central bank in the near future. The central bank law is being drafted.

The Government recognizes the need to develop entrepreneurship to underpin continued progress towards the objective of an economy driven primarily by the private sector. Four Business Development Centers have been providing training for self-employed workers. The first national Business-Government Dialogue Forum is planned to take place in the middle of April 2005.

Based on the contract concluded with a South Korean company in relation to the Emigrant Worker Program (EWP), the first batch of 100-200 workers, out of 1,000 targeted by the end of 2005, will depart to South Korea by the middle of 2005. The Government continues to explore similar arrangements with other countries.

Agriculture: Agriculture is the primary economic activity in Timor-Leste, accounting for about 26 percent of Gross Domestic Products (GDP) and employing 80 percent of the labor force. In September 2004, the Policy and Strategy Framework of the Ministry of Agriculture, Forestry and Fisheries was approved by the Council of Ministers. The Framework focuses on better food security through improving productivity of farm crops and nutritional quality as well as on the promotion of market oriented agriculture and agro-industry. In addition, the Food Security Policy, the Pesticides, Seeds, and Fertilizers laws and regulations, the Quarantine laws, and the Livestock laws and regulations are under preparation with external assistance. The National Water Resource Policy has been drafted.

In the field of food production, a program for seed and tuber multiplication and distribution is on-going for standardizing introduction, evaluation, distribution and quality assurance of new plants; two peanut, two

maize, and two sweet potato new varieties were distributed by the Ministry and are being multiplied by farmers in the districts. The Ministry has also commenced to develop a Timorese model for extension and service delivery through reviewing local and international experience with service delivery.

BASIC INFRASTRUCTURE

Infrastructure is an important sector that is critical for achieving the overarching goals of the National Development Plan - poverty reduction and sustainable and equitable economic growth. Improved infrastructure will be the foundation for private sector development, particularly in district areas. Public investment in infrastructure will also contribute to creating employment in the medium-term.

Power: In the power sector, significant progress has been made in the provision of electricity service in Dili. Electricity has become available for 24 hours a day in Dili. The replacement and/or rehabilitation of power generators in the Comoro power station are ongoing, and the power distribution network in Dili is being rehabilitated with external assistance. In addition, the successful introduction of pre-payment meters, with 22,000 already installed, has extensively improved cost recovery in electricity in Dili. Now the priorities in the power sector will be given to electricity service in districts, including district centers and 34 rural power systems rehabilitated, as well as to further improvement of collection efficiency in Dili.

Transportation: In the transportation sector, management of road network is a key issue. A study for road development and strategy is being undertaken, with external assistance, having commenced in February 2005. The output of this study will include the preparation of a detailed five-year development strategy and an indicative 10 year investment plan, as well as optimal levels of expenditure for road construction and maintenance. Community-based maintenance of roads has been continuously important from the point of view of job creation as well as road maintenance. It is reported that 517 and 451 actual jobs were created through community-based road maintenance in the 1st and 2nd quarters of 2004-05, respectively. The Government is planning to create 1,000 annualized jobs in the next year.

Water and Sanitation: In the water and sanitation sector, considerable investment is required to achieve targets in the National Millennium Development Goals on access to safe drinking water and sanitation in both urban and rural areas. The progress during 2004-05 included the periodic maintenance of the Water Treatment Plants, a series of maintenance of water supply facilities in district towns, and the development of water and sanitation facilities in rural areas. Based on the Water Service decree promulgated in February 2004, the Government has commenced to collect water user charges, mainly from big customers in the first instance.

CAPACITY BUILDING & INSTITUTIONAL DEVELOPMENT

The Capacity Development Coordination Unit (CDCU) aims to consolidate capacity building activities to achieve better service delivery through cross ministry training and economic growth through the establishment of targeted capacity building facilities. This will be achieved through establishing clear objectives of what is to be achieved and implementing capacity building activities through a strong leadership which has the ability and delegation to make decisions and operate flexibly.

A Capacity Development Training Needs Analysis (TNA) of the civil service has been conducted. This has been based upon recommendations in the Governance and Public Sector Management Strategy (GPSM) (2001), 'Priority Human Resource Needs for the East Timorese Government at Independence' (2001), and the Strategy Paper for Strengthening the Public Service (SSPS) of Timor Leste presented to the Development Partners meeting in 2003. The GoTL has expressed concern at the continuing heavy reliance on foreign advisors in key positions across ministries, which is indicative of the shortage of essential skills among local staff.

The TNA, which was based on the three pillars model of capacity building, was undertaken in the second half of 2004. Its main objective was to consolidate all capacity development initiatives related to the civil service with a view to maximising the results from the Development Partners financial contribution and to ensure that the capacity development to be implemented in the future would be appropriate and reflect the real needs of the civil service. The TNA took a bottom-up approach and reflects the stated training needs of 124 Divisions, within 10 Ministries, 4 Secretariats of State and 4 other State institutions, representing a total of 15,336 staff.

EXTERNAL ASSISTANCE PLANNING & COORDINATION

During 2004-05, the Government continued to strengthen its leadership role over planning the country's development priorities and mobilizing and coordinating external assistance to support them.

An important development in this regard is the development of the SIPs. The SIP process has allowed the Government to strengthen links between policy formulation, programs, and expenditures to achieve the national goals and objectives set out in the National Development Plan. It elaborates the Government's sector frameworks for the medium-term for the 17 key sectors and presents a menu of priority development projects that are essential to achieving these sector frameworks. The SIP process has allowed the Government to strengthen its leadership and ownership over setting its own sector strategies and priorities and mobilizing resources to achieve them. For donors, it provides clear guidance regarding priorities for assistance. The guiding principle is to marry the preferences of Development Partners for delivery mechanisms and project design to the Government's policy priorities.

Sector Working Groups, a primary vehicle for implementing the SIP under the leadership of the Government, have been already established for agriculture, basic infrastructure, and healthcare, and a group for education and training is in the pipeline. The groups for the remaining sectors will be established gradually by the end of this fiscal year.

The Government has also further strengthened its capacity to monitor its work and performance. Annual Action Plans and Quarterly Reporting Matrices are by now well integrated in each Ministry's planning process. The Transition Support Programs in the past three years have also made important contributions to enhancing the Government's performance management capacity and promoting its accountability. The TSP Action Matrix has become a key tool for comprehensive monitoring and reporting on progress in the Government's overall activities. The SIP process also highlighted the need for monitoring and evaluation of progress towards goals and objectives within each sector, and this will need to be further discussed within the framework of the respective Sector Working Groups. With the sector coordination framework now being put in place, there is now a good basis for initiating serious work on the detailed definition of the monitoring and evaluation framework for each sector.

TRENDS IN EXTERNAL ASSISTANCE

External Assistance has occupied a large part of the necessary funding for development of Timor-Leste in the past five years. The Combined Sources Budget for 2004-05 expected that approximately 82 percent of its financing would come from external assistance, including budget support, the Trust Fund for East Timor, bilateral/multilateral project support, and UN assessed posts.

At the Tokyo donor meeting in December 1999, Development Partners pledged US\$522 million for three years for reconstruction of Timor-Leste. At the Dili donor meeting in May 2002, US\$360 million, including US\$82 million for budget support, was pledged for development of Timor-Leste for another three years. The table below provides trends in external assistance to Timor-Leste on annual disbursement basis. The main point is that there is a steady downward trend in levels of external support.

Table 3.1
Trends in Assistance to Timor-Leste

	1999-00	2000-01	2001-02	2002-03	2003-04
Development & Technical Assistance off-budget	63	121	146	119	108
Development & Technical Assistance on-budget	27	34	33	37	26
UN Security Council Posts	0	0	0	14	8
Humanitarian Assistance	84	30	12	3	2
Budget & Commodity Support	27	45	32	31	33
Donor Administrative Expenses	1	7	6	5	5
Total	202	236	228	209	181

It should be noted that there are several characteristics in external assistance to Timor-Leste. First, all the external assistance to date are grants based on the government policy. Second, the Trust Fund for East Timor, which was established at the initial stage and has been administered by the World Bank and the Asian Development Bank, has played an important role for reconstruction and development of Timor-Leste, but its operation is scheduled to come to a close. Lastly, general budget support is a part of external assistance. The Transition Support Program was initiated in 2002-03 as a three-year program and now is planned to be transformed to the Consolidation Support Program for another three years starting from 2005-06. This mechanism not only provided the necessary financing to bridge the resource gap in the State

Budget but also contributed greatly to reinforcing the Government's internal performance management systems.

The "Development and Technical Assistance" type of external assistance during the period from 1999-00 to 2003-04 were allocated to governance (34.9% of the total program), basic services (28.8%), basic infrastructure and housing (21.1%), and production-related sectors (15.2%).

Major specific sectors supported by external assistance included education and training (17.9%), public sector management (14.9%), health (10.9%), agriculture, forestry and fisheries (9.9%), and water supply and sanitation (8.4%).

PART 3 – THE ECONOMY

Timor-Leste's preliminary National Account estimates show that real Non-oil GDP grew during 2001 but contracted during 2002 and 2003. More recently, partial indicators have been mixed and it is likely that non-oil economic activity has now started to rise again. Non-oil GDP is expected to grow more quickly in 2005-06 and beyond, being fuelled by rising State Budget expenditure and by a modest increase in Development Partner programs under the SIPs.

The future growth rates of economic activity that are forecast will lead to some increase in per capita income levels, as required under the NDP. However, the Government would like to see further reductions in poverty, through higher incomes to supplement the progress made in increasing Government services aimed to help the poorest levels of Timorese society.

Accordingly, the Government is committed to further work to develop and implement policies to increase the Non-Oil GDP growth rate, including through SWGs. The Government's objective is to obtain sustained Non-Oil GDP growth rates of 6 per cent within the next five years. Government policies include promoting long-term private sector growth through creating a pro-business regulatory environment, undertaking vigorous efforts to promote investment opportunities among domestic and international investors and providing public infrastructure. Its medium-term growth strategy is to increase public expenditure, especially in the construction sector, to create employment. However, the successful implementation of this agenda will also depend upon commitment by Development Partners to the level of expenditure contained in the SIPs and further increases in State Budget expenditure.

PAST DEVELOPMENTS

Timor-Leste's preliminary National Account estimates show that real GDP grew during 2001 but contracted during 2002 and 2003. Table 3.1 shows the levels of GDP in total and for the major components of GDP, which are: the Oil and Gas Mining sub-sector; Food, which includes the Farm Food Crops, Livestock and Fishery sub-sectors; the Government sub-sector; and the (remaining) Private sector.

Table 3.1
Major Components of GDP (\$m) 2000 to 2003

	2000	2001	2002	2003
Oil	77.5	50.4	47.8	51.9
Non-oil	316.2	368.4	343.9	322.5
Food	68.6	76.0	73.9	68.9
Govt	106.3	142.7	118.0	104.5
UN	83.4	91.5	60.3	38.6
Other	22.9	51.1	57.7	65.9
Private	141.3	149.7	152	149.1
Total	393.7	418.8	391.7	374.4

Table 3.1 shows that Non-Oil GDP is much larger than Oil GDP. It also shows that the Private sector is the largest part of GDP, followed by Government and the Food sector. The most important feature of the structure of GDP in Timor-Leste is the distinction between Oil GDP and Non-oil GDP.

Oil GDP is the Oil and Gas Mining sub sector of the Mining and Quarrying Sector. This production is derived entirely from Timor Sea activity and has very little interaction with economic activities in the rest of Timor-Leste. From 2000 to 2003, the only oil production was from the Elang Kakatua Kakatua North (EKKN) field. There has been a trend decline in production from this field, with declining output from 2000 to 2002 and a small increase in 2003.

Non-oil GDP has been subdivided into Food, Government and Private sectors. The Food sector includes subsistence agriculture, is heavily affected by the climate and is relatively unaffected by the rest of the economy. The Government sector includes the administrative services provided by UNTAET/UNMISSET (excluding peacekeeping operations), General Budget of the State, TFET, bilateral agencies, multilateral agencies and NGOs. This sector is further broken down into the UN sub sector, which has shown strong declines and the Other sub sector, which has shown strong increases. The Private sector includes all other production within GDP.

Table 3.2 shows the contributions that these sectors have made to GDP growth and the growth rates of these Sectors.

Table 3.2
Growth Rates and Contributions to GDP Growth (%) 2001-2003

	Contributions to GDP Growth			Growth Rates			
	2001	2002	2003	2001	2002	2003	average
Oil	-6.9	-0.6	1.0	-35.0	-5.2	8.6	-12.5
Non-oil	13.3	-5.9	-5.5	16.5	-6.7	-6.2	0.7
Food	1.9	-0.5	-1.3	10.8	-2.8	-6.8	0.1
Govt	9.2	-5.9	-3.4	34.2	-17.3	-11.4	-0.6
UN	2.1	-7.4	-5.5	9.7	-34.1	-36.0	-22.6
Other	7.2	1.6	2.1	123.1	12.9	14.2	42.2
Private	2.1	0.5	-0.7	5.9	1.5	-1.9	1.8
Total	6.4	-6.5	-4.4	6.4	-6.5	-4.4	-1.7

With declines in Non-oil GDP in 2002 and 2003, as shown in Table 3.2, average per capita incomes levels will have fallen in those years.

The following conclusions can be drawn from Table 3.2.

- While movements in the Oil sector can be large, they are largely independent of changes in Non-oil GDP.
- The Food Sector has made a significant contribution to the total change in GDP – moving in the same direction as total GDP in each year. On average, it has been broadly unchanged over this period.
- The Government sector has made the greatest contribution to changes in total GDP on a year-by-year basis. This sector has always moved in line with the change in total GDP and has accounted for the majority of the change in GDP in each year. However, it has declined on average over this period due to the decline in UN activities.
- The Private sector has been more stable than other sectors and has moved in the same direction as total GDP in the majority of years. It has grown significantly over this period, the only major component of GDP to have done so.

These features of the past economy of Timor-Leste are valuable guides to current and future developments in GDP.

PRESENT DEVELOPMENTS

The largest event to affect GDP in 2004-05 is the commencement of production in the Bayu Undan petroleum field. This new field is much larger than the EKKN field. It commenced production in the second half of 2003-04 and has been in full production for all of 2004-05. Accordingly, preliminary estimates indicate that the Oil sector will grow significantly in 2004-05 to be about twice the size of Non-oil GDP.

This growth in the Oil sector is likely to have little effect on Non-oil GDP. Instead, Non-oil GDP growth in 2004-05 can be analysed in terms of its component Food, Government and Private sectors.

While 2003 was a drought year with relatively low food production, indications are that 2004 and 2005 have seen a return to more normal rainfall patterns. Accordingly, Food production is expected to recover strongly from the previous low level and probably back to the trend growth path that has been occurring since the devastation of late 1999.

Overall, the Government sector will probably make little contribution to GDP growth in 2004-05. Total State Budget expenditure has been relatively stable with a small level of net recruitment in staff. Total expenditure on development and technical assistance by Development Partners, including UN Security Council funded posts, is also broadly unchanged. There are a range of partial indicators that provide information about recent developments in the Private sector.

Some are indicative of growth. Lending by the financial sector to businesses and households has increased rapidly, though from a low base. The recovery in food crops following the end of the drought will also have increased the spending power of many rural households. With some recovery in world coffee prices, coffee exports have been increasing, though from relatively modest production levels. In Dili there has also been a visible increase in small retail outlets.

Other developments suggest a contraction in the Private sector. Imports into Timor-Leste, including the largest component of imports through Dili port, are continuing to decline.

Continued falls in the inflation rate also indicate lower levels of domestic demand. The annual inflation rate in Dili was 2.1 per cent in the year to February 2005. This is much lower than the levels that had occurred in

some previous years. This low level of inflation helps contribute to a stable macroeconomic environment in which business can operate. However, it is also indicative of broadly unchanged levels of domestic demand.

Importantly, total spending by Development Partners has fallen in 2004-05, with estimated expenditure by the peacekeeping operations of UNMISSET falling from about \$90m in 2003-04 to less than \$20m in 2004-05. These operations do not contribute directly to GDP, but the spending of UNMISSET and UN personnel will have declined. While much of this decline in UN expenditure may contribute to falls in imports rather than GDP, if even a quarter of this expenditure affected domestic production then it would subtract about four or five percentage points from GDP growth in 2004-05.

Overall, the previous declines in Non-oil GDP have probably finished with 2004-05 representing a turning point. Non-oil GDP is estimated to have grown by 1 per cent in 2004-05.

FUTURE DEVELOPMENTS

Over the next four years there are expected to be some further increases in the Oil sector. The completion of the gas pipeline from the Bayu Undan field to Darwin will more than offset the end of the EKKN field and the decline in Bayu Undan reservoir pressures and liquid production in 2006-07 and 2007-08.

These estimates assume that weather conditions remain normal and that growth in food production is broadly in line with population growth.

Public expenditure is expected to make a positive contribution to GDP growth in 2005-06 and beyond. State Budget expenditure is expected to rise by over 35 per cent in 2005-06 and further increases are intended for the years beyond. Development Partner expenditure on development and technical assistance programs is expected to increase, though overall expenditure is expected to remain below the levels experienced on average in previous years. Donor programs will increase with commitments to SIPs and the establishment of Sector Working Groups to mobilize resources to meet NDP goals and MDG priorities. While there may be further declines in UN assistance, these will be less important than previously because UN spending is already at low levels, comprising about 15 per cent of total international assistance.

The Private sector is expected to grow and contribute to GDP growth. Initially this growth may be moderate and largely driven by the increases in public expenditure. However, if the right conditions for business investment are established, if the microeconomic foundations are conducive to private sector development and if markets are found for Timorese exports, such as coffee, tourism and other new products, then growth could be much stronger.

Table 3.3 contains estimates of real GDP growth rates, including for its oil and non-oil components. Table 3.4 contains the estimated levels of nominal GDP. While a great deal of uncertainties surrounds all these estimates, the estimates for Oil GDP are very preliminary.

**Table 3.3
Growth Rates of Real GDP,**

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Non-oil GDP	56%	0%	-7%	-3%	1%	6%	4%	4%	3%
Oil GDP	-20%	-23%	2%	37%	991%	-6%	14%	3%	-1%
Total GDP	36%	-3%	-6%	2%	174%	-2%	10%	3%	0%

**Table 3.4
Levels of Nominal GDP**

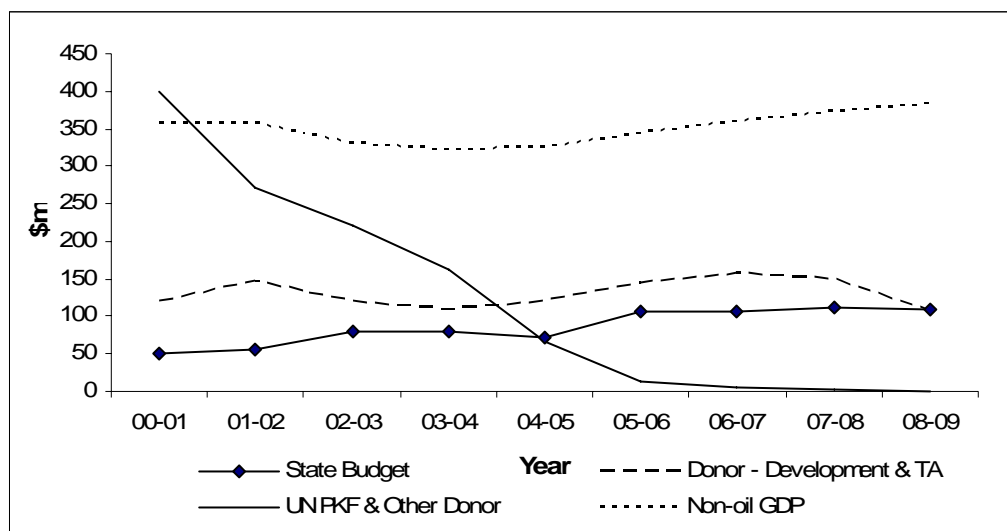
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Non-oil GDP	229	356	358	331	322	325	341	351	362	373
Oil GDP	80	64	49	50	68	745	703	799	820	813
Total GDP	309	420	407	381	390	1,070	1,044	1,150	1,182	1,186

While Table 3.3 shows large increases in Oil GDP, Oil GDP will have little direct effect on the wellbeing of the Timorese people. That is because few Timorese will be employed directly on the Bayu Undan field or sell to the petroleum sector. However, the Oil GDP will make a very large but indirect contribution to employment, income and poverty reduction in Timor-Leste because it provides large petroleum revenues to the State. The spending of those petroleum revenues will create jobs and provide incomes to the Timorese people. It is this indirect effect that will make a major contribution to poverty reduction.

The significant effect that the Government sector has on Non-oil GDP is shown in Chart 3.1, which is based on data in Table 14 of the SIP Overview Report, Volume 1. Chart 3.1 shows the levels of spending by Development Partners on development assistance and technical assistance; UN peacekeeping operations, and other international assistance and the State Budget and Non-oil GDP. It can be seen that State Budget

expenditure has been smaller than expenditure on development assistance or by the UN peacekeeping operations or Other International Assistance. It can also be seen that State Budget expenditure has been rising and will continue to rise, whereas the UN peacekeeping component of public expenditure has fallen and is expected to continue to fall. Finally, when public expenditure has fallen then there has also been a marked reduction in non-oil GDP growth. This could happen again if international assistance again falls significantly, as in 2008-09.

Chart 3.1
Expenditure by UN peacekeepers, Other International Assistance and State Budget, and Non-oil GDP.



IMPLICATIONS AND POLICIES

The future growth rates of economic activity that are forecast will lead to some increases in per capita income levels, as required under the NDP, following decreases in the past. However, the rate of job creation would likely be much slower than desired by the Government. The Government would like to see further reductions in poverty through higher income levels to supplement the progress made in increasing Government services aimed to help the poorest levels of Timorese society. This will require more substantial increases in per capita Non-oil GDP growth.

Accordingly, the Government is committed to further work to develop and implement policies to increase the Non-oil GDP growth rate, including through SWGs. The Government's objective is to obtain sustained Non-oil GDP growth rates of 6 per cent within the next five years. The SIP Overview Paper contains projections that show GDP growth increasing to 6 per cent in the long term.

The Government intends to employ a two-pronged approach aimed at promoting growth and investment. This is to achieve the level of economic growth required to absorb the rapidly-growing labour force and improve average income levels.

First, the main source of growth in a long run will be in the private sector, with private investment in commercial agriculture and non-farm private activity being very important. Government will promote this by creating a pro-business legal and regulatory environment, undertaking vigorous efforts to promote investment opportunities among domestic and international investors and by putting in place the public infrastructure that will attract business. This is a large task for a new country and it may take some years to develop and complete this agenda.

Second, the Government will aim to generate employment next year and in the medium term by increasing public construction activities. A wide range of public construction activities are contained in the SIPs. The purpose of this construction is partly to provide the infrastructure required to deliver services to meet the Millennium Development Goals and so assist the needs of the most vulnerable people in Timor-Leste. It will also help provide the public infrastructure that business needs. In both cases it will create employment in the private sector, including in the Districts where many of the needs for infrastructure are greatest.

The Mid Year Review and future Budgets are intended to contain further increases in State Budget expenditure, subject to financing from the Petroleum Fund and good expenditure proposals. Those further increases will lead to further increases in the Non-oil GDP growth rates.

These Government strategies will offer direct employment opportunities in the private sector, while also building the level of public infrastructure required to both meet Millennium Development Goals and attract

businesses and investment to Timor-Leste. They will also involve the creation of an attractive pro-business legal and regulatory environment. The assistance of Development Partners is requested in implementing these strategies. Further information on these issues is contained in the SIPs Papers, including the Overview Paper.

PART 4 – REVENUE

TOTAL REVENUE

Timor Leste Revenue estimates in the 05-06 Budget have increased significantly in comparison with 2004-05 Budget Estimates and the Mid Year Review.

Table 4.1
Total Estimated Timor Leste Revenue (\$m)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total
	Act	Est	Est	Est	Est	4 Yrs
Revenue						
Petroleum Revenue	242.6	158.7	185.7	181.2	218.5	744.1
Customs Duties	17.0	17.0	17.5	18.2	19.1	71.8
Other Taxes	10.1	9.9	10.2	10.6	11.1	41.8
User Fees and Charges	6.1	9.5	10.9	12.0	13.4	45.9
Non Financial Public Authorities	8.2	10.3	11.5	12.2	13.0	47.0
Total Revenue	284.0	205.4	235.9	234.2	275.2	950.7

The total in Timor Leste Revenue estimates for the next four years will reach \$950.7m, originating from the several components displayed above. However the most dramatic increase in Revenue Estimates over the next five years will be for Petroleum Revenue. Over the medium term (i.e. for the next four years) Timor Sea revenue estimates will reach \$744.1m.

Therefore estimates for total revenue for the 2005-06 General Budget of the State will be over \$200m each year, in comparison with total revenue estimated in mid 2004-05 which was under \$200m each year (and the original Budget 2004-05 had a total of less than \$100m each year). This shows a significant change in the total Revenue expected over the medium term, which arises from and highlights the volatility of petroleum revenue estimates.

PETROLEUM REVENUE

Box 4.1 Methodology and Assumptions

The petroleum revenue estimates cover revenues from the Elang Kakatua Kakatua North and Bayu Undan fields, as these are the only petroleum fields that have submitted Development Plans, have had those plans approved by the Timor Sea Designated Authority and are in operation. Other potential revenues could arise from future development of the Sunrise, Jahal Kuda Tasi or Pheonix fields. They could also arise from a settlement of maritime boundaries. However, no Development Plans have been submitted or approved for these new fields and so the timing and magnitude of any potential revenue is uncertain. Accordingly, no estimates for these potential new revenues are included.

The methodology used to generate estimates for the Timor Sea revenue estimates for the 2005-06 Budget over the next four years (2005-06 to 2008-09), was to meet with the project operator to get information about their production estimates, and to make assumptions about world oil prices and other important parameters. Officials from the Macroeconomic Unit, Timor Sea Designated Authority, Timor Sea Office and the Timor-Leste Revenue Service participated in meetings to analyse the available information and to generate the best possible estimates. Information given by the operator provided the base for estimates of Timor-Leste revenue.

The Timor Sea revenue estimates were updated using the latest information for Bayu Undan from the operator, including on;

- prices of petroleum products sold;
- upstream investment costs;
- LNG plant investment cost (including changing exchange rates);
- pipeline investment costs;
- production volumes;
- upstream operating costs;
- exchange rate on pipeline payment from Australia; and
- model refinements based on new data.

The Timor Sea revenue estimates are conservative. The world oil price assumption is based on market (NYMEX) prices, but discounted by \$5. Table 4.2 shows the world oil price assumptions used for West Texas Intermediate (WTI) oil in each calendar year.

Table 4.2
World Oil Price Assumptions (\$ per barrel)

2005	2006	2007	2008	2009	2010
40.62	37.72	36.02	35.02	34.39	33.99

The reservoir volumes are based on the conservative “proven” estimates of the Operator. A further 15 per cent discount is applied to revenues to account for other risks, such as production problems, bad weather, exchange rates, the timing of pipeline and LNG plant construction, the cost of downstream investments, the price of Bayu Undan specific products and other factors that cannot be quantified or identified.

As these petroleum revenue estimates are conservative, the actual outcomes are more likely to be higher than the estimates than lower than the estimates. Nevertheless, the risk that petroleum revenues will be lower than expected is very real. For example, unforeseen drilling problems in 2003 with the Bayu Undan field led to estimated increases in costs, delays in production and reductions in estimated revenue. While many of these problems were eventually resolved successfully and rising world oil prices have more than offset the remaining problems, the risk of future problems is still very real.

The risk that is easiest to identify and quantify is the risk to revenue caused by changing world oil prices. This risk is illustrated using scenario analysis of different world oil price assumptions. In the last ten years world oil prices have moved within a \$46 band, from \$10 to \$56, and in 2004 alone they moved within a \$24 band, from \$32 to \$56. Given these large historical movements, the \$15 difference between the High Case and the Low Case is modest. The High Case and Low Case do not reflect the maximum or minimum revenues possible, but rather indicate the likely fluctuations that could occur.

**Table 4.3
Estimated Petroleum Revenue (\$m)**

	2004-05	2005-06	2006-07	2007-08	2008-09	Total
	Act	Est	Est	Est	Est	4 Yrs
Taxes	193.8	112.0	135.0	127.3	113.0	487.3
FTP and Profit Oil/Gas	48.7	41.1	42.2	40.5	86.1	209.9
Other (incl EMRD)	0.1	1.0	0.0	0.0	0.0	1.0
Petroleum Fund Interest	0.0	4.6	8.5	13.4	19.4	45.9
Total	242.6	158.7	185.7	181.2	218.5	744.1

In the financial year 2005-06 Timor Leste revenue is expected to decrease in comparison with the previous financial year. In 2005-06 it is predicted that world oil prices will drop.

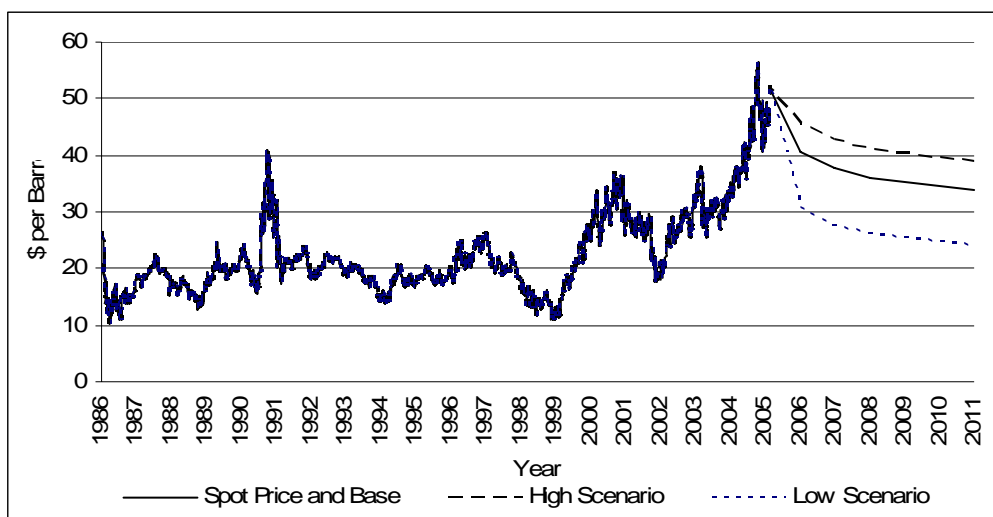
Petroleum Revenue is expected to experience a significant increase over the medium term. The increase in Timor Leste revenue is due to:

- An increase in world oil prices (NYMEX)
- Progress in the development process of the Bayu Undan Project and
- Sound Administrative Management.

However compared with the MYR 2004-05, Estimated Timor Sea Revenue started to indicate an upward shift due to an increase in world oil prices, as shown in Chart 4.1. This is positive for Timor Leste in designing and supporting a sustainable, sound development plan program. The increase in world oil prices is due to a number of factors;

- Oil stocks are decreasing in the world market
- Oil production in several oil producing countries is not yet running smoothly
- China is experiencing growth in the development of its economy.

**Chart 4.1
Changes in World Oil Prices – WTI basis (\$ per barrel)**

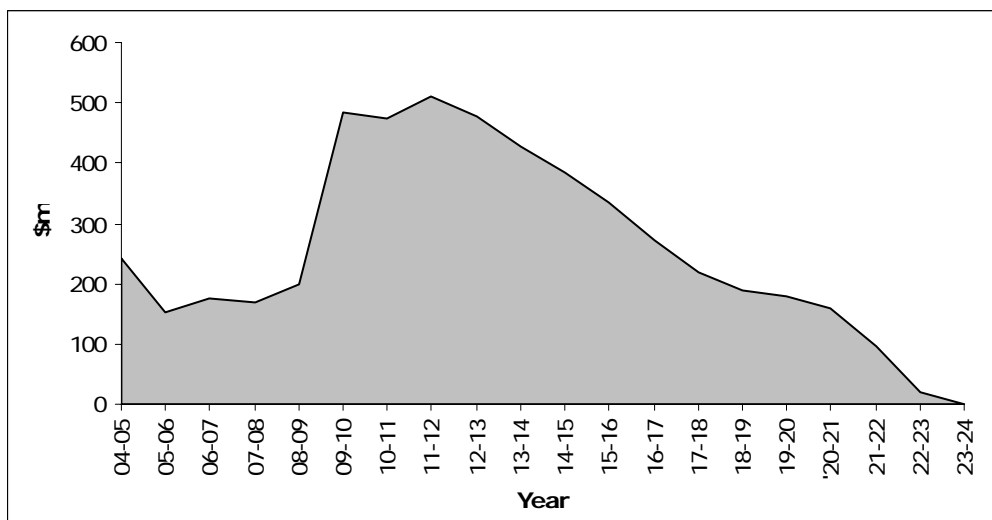


Therefore, estimated Petroleum Revenue for the medium term will be significant. It will amount to a total of \$744.1m, in comparison with the estimated revenue in the 2004-05 MYR of \$546.6m (and the original Budget 2004-05, which estimated a mere total of \$269.7m originating from the Timor Sea).

In the following years, estimated Timor Sea Revenue is expected to increase, including when LNG production and Profit Oil payments will start.

Chart 4.2 shows the long term estimate of petroleum revenue over the next twenty years.

**Chart 4.2
Timor-Leste Petroleum Revenue 2004-05 to 2022-23**



Risks

World oil prices are the key risk for oil producing countries. Currently oil producing countries are currently delighted with the receipt of revenue in excess of predicted targets due to high oil prices which will continue in the medium term.

However these estimates can be uncertain as world oil prices are always in a state of fluctuation. With a sustained increase in oil prices over each subsequent year then these countries can undertake development in sectors prioritized by their government and significant amounts of money can be placed in savings for the next generation. If world oil prices decrease to a low level, then oil producing countries will face difficulty in planning development in their respective countries.

Currently the Government of Timor Leste is preparing Estimates on Timor Sea Revenue through the use of three scenarios;

- Base Case Scenario,
- High Case Scenario and
- Low Case Scenario

These scenarios are based on oil prices in the world market (NYMEX) with estimates for the Base Case \$5 lower than NYMEX prices. The High Case is \$5 higher than the Base Case and the Low Case is \$10 lower than the Base Case. From these scenarios, the Base Case scenario is used each year in the Government Budget. However, the Base Case scenario used by the Government of Timor Leste still contains a discount of 15%, to provide security for the planning of the annual Government Budget of the State.

**Table 4.4
Scenarios for Timor Sea Revenue (\$m)**

	2004-05	2005-06	2006-07	2007-08	2008-09	4 Year total
Base Case	243	153	177	168	199	697
Low Case	214	82	89	75	77	324
High Case	256	185	211	197	351	944

There are two scenarios from the table above that will have significant implications for Timor Leste Revenue. The High Case Scenario indicates that an increase in oil prices will have a large impact on Timor Sea Revenue and the Government will be able to place significant savings in the Petroleum Fund account for the next generation. Whereas the Low Case Scenario shows low revenues so the Government will not have any surplus to place in savings as revenues would be lower than expenditure.

NON-PETROLEUM REVENUE

Timor Leste Domestic Revenue for the financial year 2005-06, is expected to decrease slightly from the MYR 2004-05. Overall estimates for the medium term will increase from year to year although this will only be a minor increase.

Table 4.5
Non-Petroleum Revenue (\$m)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total
	Act	Est	Est	Est	Est	4 Yrs
Customs Duties	17.0	17.0	17.5	18.2	19.1	71.8
Other Taxes	10.1	9.9	10.2	10.6	11.1	41.8
User Fees and Charges and Interest	6.1	9.5	10.9	12.0	13.4	45.9
Total	33.2	36.4	38.6	40.8	43.7	159.5

However for the financial year 2005-06 there will be some movement within estimates of Domestic Revenue caused by several factors:

- The withdrawal of UNMISSET who will depart in 2005, which will cause a minor decline in some tax receipts in Timor Leste
- The withdrawal of UNMISSET will also result in associated businesses reducing their activities,
- The Customs Directorate is still centralising its ASYCUDA System which will provide an increased ability to combat evasion, it is still not completely installed in all main merchandise entry and exit points of the country
- The tsunami which struck several Asian countries may disrupt regional trade
- Despite these aforementioned problems, it appears that Domestic Small Businesses are developing in all Districts, especially in Dili, where numerous kiosks and restaurants are active. These are mostly relatively small taxpayers.

An additional risk to revenue is the possibility that the implementation of the Investment Law in Timor Leste will improve economic activities and increase revenue by more or less than the relative costs of the fiscal incentives.

Estimates of fees, user charges and other revenue for the 2005-06 Budget shows an overall increase over the next 4 years with a decline in a few areas, as shown in table 4.4.

Table 4.6
Fees, User Charges and Other Revenue (\$m)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total
	Act	Est	Est	Est	Est	4 Yrs
Visa Fees	1.6	1.4	1.4	1.5	1.5	5.8
Land and Property Income	1.4	1.1	1.2	1.3	1.4	5.0
University Fees	0.4	0.5	0.6	0.8	1.0	2.8
Passport Fees	0.2	0.3	0.4	0.5	0.6	1.8
Land Transport	0.5	0.6	0.7	0.7	0.7	2.7
Business Registration	0.3	0.2	0.2	0.2	0.2	0.8
Postal Charges	0.1	0.1	0.1	0.1	0.1	0.5
Other	0.3	0.3	0.3	0.3	0.3	1.2
Interest	1.3	5.0	6.0	6.6	7.6	25.2
Total	6.1	9.5	10.9	12.0	13.4	45.9

- Visa revenue is expected to decline in the 2005-06 Budget if compared with estimates made in the 2004-05 review because in accordance with regulations in force Timorese citizens whose spouses are foreigners and foreigners who work in humanitarian sector in Timor Leste. are exempt from the payment of visa fees.
- Land and property revenue is expected to decline in the 2005-06 Budget. This is due to government policy not to continue to rent houses or government buildings in *Farol* area. After that, over the next three years revenue is expected to increase because many people in occupied houses or government buildings will be identified and are expected

to pay rent. A mobile office will set up next year in order to actively get people registered who occupied government houses or buildings.

- The University of Timor Leste over the next four years (2005 - 2008) is expected to experience an increase in revenue for each year because many high school graduates will continue their studies and more students will pay fees.
- Civil registration is expected to increase revenue during the next four years (2005 – 2008). Currently most of these revenues are from the issue of passports. New revenue will be received from other services such as: birth certificates, marriage certificates, divorce certificates, and certificate of citizenship and identity cards.
- Land transport revenue estimates in 2005-06 expected to increase each year as various new systems are implemented for fines, transfer or registration.
- Business registration revenue estimates for the year 2005-06 are expected to decline. This decrease is as a result of the slow down in business activities arising from the contraction of the United Nations Mission in the country. However, with the projected better performance of the economy in the coming years coupled with the government commitment to provide the required incentives and environment for increased private sector participation more revenue will be generated as a result of the registration of new business.
- Postal revenue will be relatively stable over the next four years.
- Other revenue is relatively stable.
- Interest receipts outside the Petroleum Fund, will depend upon world interest rates and a future decision as to how much to transfer to the Petroleum Fund on 1 July, 2005.

NON-FINANCIAL PUBLIC AUTHORITY REVENUE

Table 4.7
Non-financial Public Authority Revenue (\$m)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total
	Act	Est	Est	Est	Est	4 Yrs
Aviation	0.9	0.8	0.9	0.9	1.1	3.7
Port	1.3	1.2	1.3	1.4	1.4	5.3
Electricity	6.0	8.3	9.3	9.9	10.5	38.0
Total	8.2	10.3	11.5	12.2	13.0	47.0

In the financial year 05-06, total Estimated Agency Revenue is expected to increase in comparison with Estimates from the MYR 04-05.

However it is apparent from the sub Agencies that the Aviation Agency and Port Agency will experience a slight decline in 05-06. This decline will be due to the withdrawal of the UN from Timor Leste which will have a slight impact on the number of passengers entering or departing in order to take holidays in neighbouring countries.

In addition to this, the entrance of goods through the ports was reduced as more importers start to use the port of *Nusa Tenggara Timur* (West Timor) and to import merchandise through the land transport system.

PART 5 – PETROLEUM FUND

Many resource-rich developing countries have suffered from the “resource curse” where resources hinder rather than promote economic development. One mistake that these countries have made is to spend all their revenue as it arrives, which leaves them with no saving for the future and with expenditure levels that fluctuate with commodity prices.

The Government is determined to avoid repeating the mistakes of other resource-rich countries. Instead, it has adopted a savings policy and is creating a Petroleum Fund to hold and manage its savings of petroleum revenues.

BACKGROUND AND CONSULTATIONS

Timor-Leste commenced saving First Tranche Petroleum (FTP) revenues in 2000. These savings, which are estimated to total \$63m with accumulated interest by 1 July 2005, are still unspent.

In 2002, the Government asked for advice from the IMF on the establishment of a Petroleum Fund, it received a report in early 2003, and announced its intention to establish a Petroleum Fund for Timor Leste in mid 2003. A discussion paper on the key policy issues was released in October 2004, followed by broad public consultations. Building on the discussion paper and the comments made during the public consultations, a draft Petroleum Fund Act was prepared and released for public consultations in February 2005.

The Government has revised the draft law in light of comments and suggestions made by civil society and the public at large. The Council of Ministers has already approved the Petroleum Fund law, and submitted it to Parliament. It is then expected that after approval by the National Parliament and promulgation by the President of the Republic that it can be implemented from 1 July 2005, the beginning of the 2005-06 fiscal year.

KEY DESIGN PRINCIPLES

The design of the Petroleum Fund and the corresponding draft Act is based on the following key principles:

- The Petroleum Fund shall be a tool that can contribute to the wise management of Timor-Leste’s petroleum resources, for the benefit of both current and future generations.
- The Petroleum Fund builds on international best practice and reflects the circumstances of Timor-Leste. It is based on the petroleum fund used in Norway, one of the few models internationally that is generally seen to function well and contributing to a wise management of the petroleum wealth. The proposed model for Timor-Leste is currently referred to as the “Norway Plus” model, reflecting additional accountability, transparency and information features that are judged appropriate for Timor-Leste’s circumstances.
- The Petroleum Fund builds on the Constitution. The Petroleum Fund Act lays down the key parameters for the operation and management of the Fund which seeks to meet with the constitutional requirement laid down in article 139 in the Constitution. According to this provision, petroleum resources “shall be owned by the State, shall be used in a fair and equitable manner in accordance with national interests, and the petroleum extraction should lead to the establishment of mandatory financial reserves”. The proposed Petroleum Fund builds on the constitutional framework, giving to the Parliament and the Government the powers that correspond to their competencies.
- The Petroleum Fund allows for a strengthening of the responsibilities, powers and capacity of key public sector institutions, such as Parliament, the Government, nominally the Ministry of Planning and Finance and the Central Bank. There will be an Investment Advisory Board advising the the Minister of the Finance portfolio to enhance the quality of advice preceding decision-making. There will also be an independent Petroleum Fund Consultative Council to advise Parliament on the operations of the Fund.
- The Petroleum Fund is to be a tool that contributes to sound fiscal policy, and thereby help deliver on a sustainable basis strong economic growth and improved public services. The design of the Petroleum Fund acknowledges that good planning and execution of public sector budgets is a key to avoiding the resource curse found in so many petroleum producing countries. The Petroleum Fund is to be coherently integrated

into the budget process, supporting a fiscal policy framework that strikes the right balance between current consumption, investing in physical assets (infrastructure and human development) and investing in financial assets.

- The Petroleum Fund is to be prudently managed, invested securely in low-risk financial assets abroad.
- The management of the Petroleum Fund shall be carried out with the highest standard of transparency and accountability. This is a key element in building public confidence and support for a wise strategy of managing the petroleum resources. This can allow Timor-Leste to avoid the negative experiences found in so many petroleum producing countries, where petroleum has proved to be a curse instead of a blessing.

KEY FEATURES OF THE PETROLEUM FUND

On the basis of the principles described above, the draft law which establishes a Petroleum Fund, and which has been approved by the Council of Ministers, has the following important features.

- The Petroleum Fund's income: all revenues emanating directly or indirectly from Timor-Leste's petroleum resources will flow into the Fund, as well as the return on the Fund's investments (net of management expenses). All the income of the Fund shall flow into an 'earmarked receipts account'. The Government's intention is that the Fund's opening balance on 1 July 2005 will include all the accumulated First Tranche Petroleum payments and increased by such amounts as are to be determined by the Government.
- The Petroleum Fund's expenditure: transfers from the Fund can only be made to a designated State Budget account, and the sum of all transfers in a fiscal year can not exceed a ceiling set by Parliament when approving the State Budget. This ceiling will as a general rule correspond to the amount necessary to finance the deficit on the State Budget excluding petroleum revenues.
- The Government has separately adopted a savings/expenditure policy of maintaining the real value of the petroleum wealth, which will serve as a reference to determine the amount of money that should flow out of the Fund over time. This policy translates to spending the estimated sustainable income from petroleum, which is the amount that can be spent each year forever establishing a good balance between the interests of current and future generations. On current calculations, this policy allows for a significant increase in Government spending in the medium term. The estimated sustainable income from the petroleum wealth is now calculated to be over \$100m as described below.
- Specific reporting requirements are imposed on the Government and the Consultative Council if the State Budget proposes to withdraw from the Petroleum Fund more than the estimated sustainable income from petroleum. While there at times may be good reasons to spend more than the estimated sustainable income, the provisions in the Act should contribute to making sure that such decisions are transparent and well informed. This Budget is proposing to withdraw from the Petroleum Fund less than the estimated sustainable income.
- The management of the Petroleum Fund: The Government has responsibility for the overall management of the Fund, and the head of the Ministry of Planning and Finance will exercise key functions and competencies. The operational management will be delegated to the Central Bank in accordance with a management agreement.
- The Investment Advisory Board is composed of five people, between which the Director of the Treasury, the head of the Central Bank and specialists in investment management will advise the head of the Ministry of Planning and Finance on material relative to the management of the Petroleum Fund.
- The investment of the Petroleum Fund: The Fund's savings will from the beginning be invested securely in low risk financial assets abroad. In the 2005-06 fiscal year, the management agreement will make clear that all of the Fund's investment will in practice mean investments mostly in government bonds, which means that the financial risk is seen to be limited and the expected investment return moderate. The investment

strategy in the Act shall be reviewed within five years, when a larger Fund and improved institutional capacity may suggest a different asset allocation.

- External independent audits will be carried out by an internationally recognized accounting firm, contracted through a competitive process internationally to bolster confidence that money going to, from or remaining in the Petroleum Fund are not misappropriated.
- The mandate of the Petroleum Fund Consultative Council will be to advise Parliament on the operations of the Fund, observing the operations and contributing to an informed public and the sound management of the petroleum wealth.
- There are accountability, transparency and information features to contribute to a sensible management of petroleum wealth. There will be a high degree of transparency in operations including accessible and all-inclusive reporting – both on the management of the Fund and on whether the spending of petroleum revenues is consistent with long-term considerations. There are also information requirements on payments made by companies' Petroleum Fund receipts, which is a core element of the Extractive Industries Transparency Initiative. The Government has also established a separate transparency website, which includes a large number of documents relating to the petroleum sector, the Petroleum Fund and the State Budget.

An illustration of how the Petroleum Fund is envisaged to operate is shown at Diagram 5.1 and Table 5.1, and Chart 5.1 shows the expected growth in the Petroleum Fund.

Diagram 5.1
How the petroleum fund of Timor-Leste is envisaged to operate

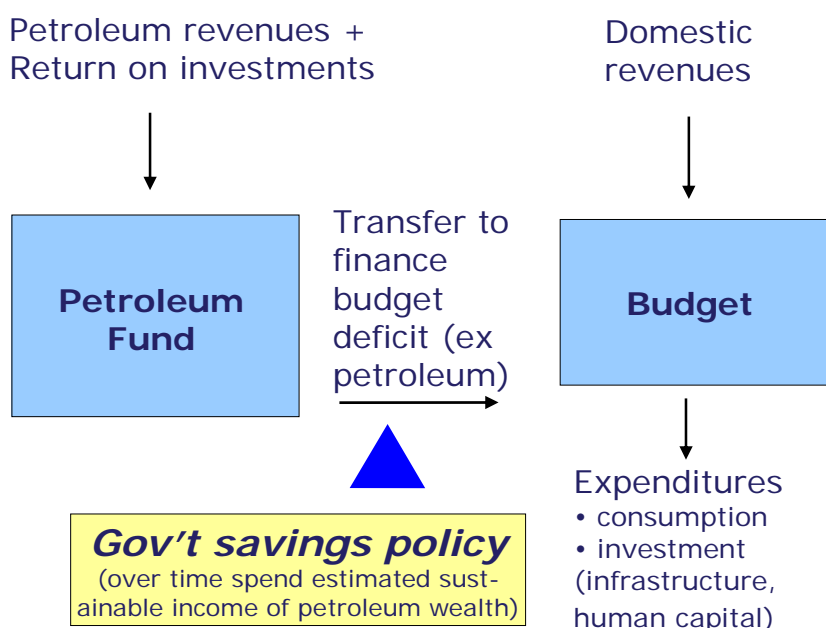


Table 5.1
The Petroleum Fund

	2004-05	2005-06	2006-07	2007-08	2008-09
Balance (start of year)	14	63	153	291	424
+ FTP/Petroleum Revenue	49	159	186	181	219
- Withdraw als	0	73	57	61	65
+ Interest	0	5	9	13	19
= Balance (end of year)	63	153	291	424	597

SAVINGS POLICY

The Petroleum Fund does not guarantee wise management of the petroleum wealth, but it can be a useful tool – provided it goes hand in hand with a fiscal policy framework that strikes the right balance between spending now and saving in financial assets. The Government has adopted such a fiscal framework in its savings policy.

The key to the Timor-Leste savings policy is that expenditure levels will not fluctuate with revenues. Instead, expenditures should adjust over the medium-term to the sustainable level of expenditure. This sustainable level is based on estimated current and future petroleum revenues, and the current level of savings. It is the level of expenditure that can be sustained indefinitely, including increasing with inflation.

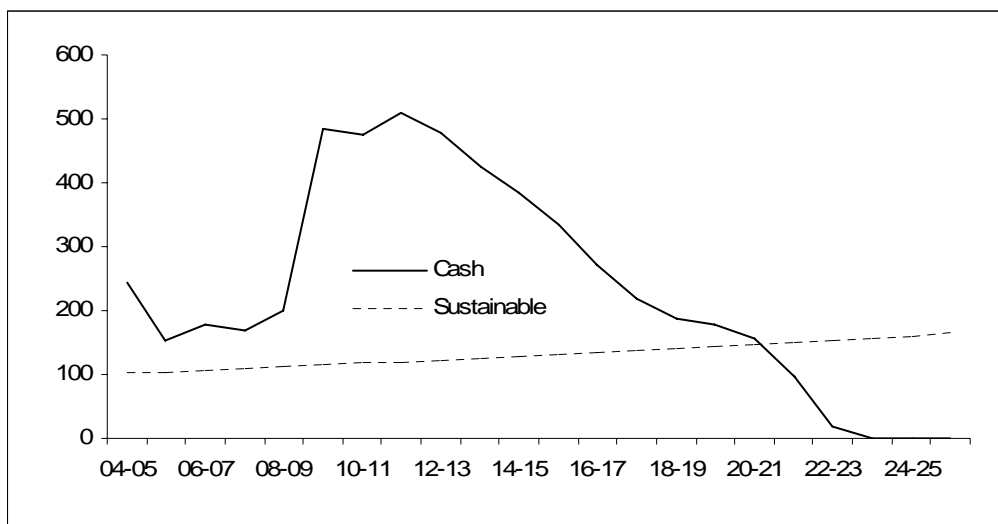
Any difference between total revenue and total expenditure will affect the balance of the Petroleum Fund. When revenues exceed expenditure then the surplus will be saved in the Petroleum Fund. When expenditures exceed revenues, as might happen if there is a temporary shortfall in revenue, then the required funding will be withdrawn from the Petroleum Fund so as to maintain expenditure at its sustainable level. Therefore, the Petroleum Fund will still play a useful role even when expenditure is at its long-term sustainable level.

This savings policy has the following advantages.

- The Petroleum Fund should accumulate significant levels of savings for the benefit of future generations of Timorese.
- The Petroleum Fund savings should generate significant interest income, including when petroleum revenues have ceased.
- Temporary fluctuations in world oil prices will have little effect on expenditure, as savings will be fluctuate instead.
- Permanent changes in revenue and the sustainable level of expenditure will result in adjustments of expenditure over the medium term, so as to minimize disruptive changes in expenditure plans.

Chart 5.1 shows the estimated petroleum revenue for Timor-Leste, excluding interest. It also shows the estimated sustainable expenditure from this petroleum revenue. The savings policy is for the budgeted level of expenditure to adjust to non-petroleum revenues plus this estimated sustainable petroleum income level over the medium term.

Chart 5.1
Estimated Petroleum Revenue and Sustainable Expenditure from Petroleum Income



CALCULATING THE ESTIMATED SUSTAINABLE EXPENDITURE LEVEL

The estimated sustainable income from the petroleum wealth is important for two purposes. First, the draft Petroleum Fund Act has specific reporting requirements imposed on the Government and the Consultative Council if the State Budget proposes to withdraw from the Petroleum Fund more than the estimated sustainable income from petroleum. Second, the Government's savings/expenditure policy of maintaining the real value of the petroleum wealth translates to spending non-petroleum income plus the estimated

sustainable income from petroleum, which means that the outflow from the Petroleum Fund over time should be close to the estimated sustainable petroleum income.

The concept of the sustainable level of expenditure can be thought of in different, but equivalent, ways.

- It is the expenditure level that can be continued indefinitely (indexed for inflation) given previous savings and estimated future revenues.
- The estimated sustainable expenditure for a fiscal year is equal to non-petroleum income plus the maximum amount that can be appropriated from the Petroleum Fund in that fiscal year and leave sufficient resources in the Petroleum Fund for an amount of equal value (indexed for inflation) to be withdrawn in all later fiscal years.
- The sustainable level of expenditure will maintain the real value of the petroleum wealth of Timor-Leste, where this real value takes account of savings already in the Petroleum Fund and estimated future petroleum revenues.

The calculation of the sustainable expenditure level derives from the following formula. It uses estimates of current non-petroleum revenues and the estimated sustainable income from petroleum revenues.

$$\begin{aligned} &\text{Estimated Sustainable Expenditure} \\ &= \text{Non-Petroleum Revenues} \\ &\quad + \text{Estimated Sustainable Income from Petroleum Revenues} \end{aligned}$$

The estimated sustainable income from petroleum revenues is equal to three per cent of the value of petroleum wealth, where the value of petroleum wealth is the current balance of the Petroleum Fund plus the Net Present Value (NPV) of estimated future petroleum revenues. The definition of the estimated sustainable income from petroleum revenues is included in the draft Petroleum Fund Law, as shown in Diagram 5.1.

Diagram 5.2 Calculating the Estimated Sustainable Income from Petroleum Revenues

Estimated sustainable income for a fiscal year is calculated according to the following formula:

$$r \times \text{petroleum wealth}$$

where *r* is the estimated average real rate of return, or real interest rate, on Petroleum Fund investments in the future and, for the purposes of these calculations, shall be 3.0%.

Petroleum wealth is calculated according to the following formula:

$$V + \text{present value } (R_0, R_1, \dots, R_n) = V + \sum_{t=0}^n \frac{R_t}{(1+i)^t}$$

where:

V is the estimated value of the Petroleum Fund at the end of the prior fiscal year

R₀, R₁, etc. are the published budget projections for expected annual Petroleum Fund receipts for that fiscal year (*R₀*) and future fiscal years (*R₁*, etc.)

i is the estimated nominal yield on a U.S. government security, averaged over the years in which Petroleum Fund receipts are expected

n is the number of years until no further Petroleum Fund receipts are projected to be received.

For 2005-06, the estimated sustainable expenditure level is about \$150m. This comprises non-petroleum revenues of \$47m plus estimated sustainable income from petroleum revenues of \$103m. The estimated sustainable petroleum income is equal to three per cent of petroleum wealth, where estimated petroleum wealth is \$3.4 billion.

Table 5.2 shows the steps involved in calculating petroleum wealth. It shows the petroleum revenues (excluding interest) for each year. It also shows the value of those revenues after discounting future revenues by 5.5 per cent for every year in which they lie in the future. Table 5.2 also shows the totals. The total of the discounted revenues is the value of the petroleum wealth of Timor-Leste.

**Table 5.2
Discounted Petroleum Revenue**

Year	Nominal	Discount	Discounted
05-06	154	0%	154
06-07	177	-5%	168
07-08	168	-10%	151
08-09	199	-15%	170
09-10	484	-19%	390
10-11	475	-23%	363
11-12	509	-27%	369
12-13	479	-31%	329
13-14	426	-35%	278
14-15	384	-38%	237
15-16	335	-41%	196
16-17	272	-45%	151
17-18	218	-47%	115
18-19	189	-50%	94
19-20	179	-53%	84
20-21	158	-55%	71
21-22	96	-58%	41
22-23	20	-60%	8
23-24	-	-62%	-
Total	4,922		3,369

PART 6 – EXPENSES²

Combined Sources expenditure (State Budget, TFET and bilateral/multilateral) is expected at the time of printing to be some \$234 million in 2005-06. This compares with forecast expenditure for 2004-05 of around \$197 million (refer table 1.5).

Total State expenditure, including self funded agencies, is budgeted to be \$129million, an increase of \$42 million over the 2004-05 Budget of \$87 million (refer table 1.4). This increase reflects a healthy growth in estimated Timor Sea Revenues and two key Government policies:

- Savings Policy – the Government will place all Petroleum revenues in the soon to be established Petroleum Fund and plans to utilise only the sustainable level of income from that fund for its annual budget; and
- Expenditure Policy – despite the significant rise in funding available from the estimated sustainable income of the Petroleum Fund, the Government will seek to maintain the quality of its expenditure – that is, through the annual Budget it will ensure that funds are only allocated for those purposes that are fully consistent with the National Development Plan and Sector Investment Programs and where the capacity to execute the Budget exists.

The increase in State Budget expenditure also reflects the movement onto the Government's Budget of a number of expenditures which are core and ongoing government activities and which would otherwise have been funded off-Budget. This move reflects the Government's desire to commence a move gradually to reflect all Government activity on-Budget and under national control. This is consistent with the approach discussed with Development Partners in framing the Consolidation Support Program (CSP), the successor to the highly successful TSP arrangements. It is hoped that the CSP will contribute \$30 million to State Budget revenue over the next three years.

At the time of preparation of this document, no decision has been taken by the UN Security Council on the continuation of support of UN Assessed assistance. No estimate has been included in the 2005-06 Combined Sources Budget estimates at this stage due to the uncertainty surrounding the UN's eventual decision. Readers should note that this may slightly affect comparisons of the 2004-05 Budget with 2004-05 figures throughout this document.

STATE BUDGET AND COMBINED SOURCES SECTORAL SHARES

Through the Sector Investment Programming process seventeen sectors have been identified, with fifteen programs having been approved by Government at this time. These are listed in table 6.2 along with the Organs of State that fall within each. These take into account key structural changes made by Government for the 2005-06 year.

² "In Part 6 – Expenses, SIPs expenditures are drawn from the individual SIP reports. See also footnotes in Part 1 – Overview."

Table 6.1
2005-06 Combined Sources Budget (\$'000)

Organ of State	General Budget of the State			Funded SIP Activities			Unfunded SIP Activities			Total		
	Recurrent	Capital	Total	Recurrent	Capital	Total	Recurrent	Capital	Total	Recurrent	Capital	Total
A-1 Office of the President of the Republic	595	-	595	-	-	-	300	150	450	895	150	1,045
B-1 National Parliament	1,198	113	1,311	528	-	528	400	-	400	2,126	113	2,239
C-1 Office of the Prime Minister and CoM	3,448	2,000	5,448	793	-	793	955	-	955	5,196	2,000	7,196
D-1 Ministry of Defence	8,177	1,600	9,777	-	-	-	-	11,800	11,800	8,177	13,400	21,577
E-1 Secretariat of State for the Council of Ministers	393	-	393	-	-	-	-	-	-	393	-	393
F-1 Ministry of State Administration	3,172	935	4,107	3,830	374	4,203	3,856	2,325	6,181	10,857	3,634	14,491
G-1 Ministry of the Interior	1,366	90	1,456	-	-	-	600	-	600	1,966	90	2,056
G-4 National Police of Timor-Leste	8,437	406	8,843	5,769	-	5,769	-	3,250	3,250	14,206	3,656	17,862
H-1 Ministry for Development	404	-	404	-	-	-	5,509	791	6,300	5,913	791	6,704
S-1 Secretariat of State for Tourism and Environment	177	-	177	-	-	-	1,070	-	1,070	1,247	-	1,247
I-1 Ministry of Justice	4,176	1,465	5,641	1,498	-	1,498	2,945	795	3,740	8,619	2,260	10,879
J-1 Ministry of Agriculture, Forestry and Fisheries	3,880	570	4,450	3,357	1,860	5,218	3,060	540	3,600	10,297	2,970	13,268
K-1 Ministry of Education and Culture	16,597	1,612	18,209	4,118	1,385	5,504	6,232	9,118	15,350	26,947	12,115	39,063
L-1 Ministry of Health	10,305	4,000	14,305	7,750	1,445	9,196	6,205	3,325	9,530	24,260	8,770	33,030
M-1 Ministry of Labour and Community Reintegration	607	253	860	607	253	860	1,500	-	1,500	2,714	506	3,220
N-1 Ministry of Foreign Affairs and Cooperation	2,678	-	2,678	-	2,000	2,000	970	307	1,277	3,648	2,307	5,955
O-1 Ministry of Planning and Finance	6,716	1,640	8,356	414	187	601	10,820	250	11,070	17,950	2,077	20,027
P-1 Ministry of Transport and Communications	1,636	981	2,617	950	2,017	2,967	950	2,017	2,967	3,536	5,015	8,551
R-1 Ministry of Natural Resources, Minerals and Energy Policy	6,214	1,768	7,982	1,681	7,651	9,332	3,173	7,651	10,824	11,068	17,070	28,139
Q-1 Ministry of Public Works	805	6,545	7,350	250	9,953	10,203	2,039	4,000	6,039	3,094	20,498	23,592
T-1 Secretariat of State for Youth and Sport	247	183	430	-	-	-	320	-	320	567	183	750
U-1 Judiciary	503	-	503	-	-	-	1,961	99	2,060	2,464	99	2,563
V-1 Banking and Payments Authority	240	10,500	10,740	-	-	-	250	-	250	490	10,500	10,990
Y-1 Provider of Human Rights	83	-	83	490	-	490	625	-	625	1,198	-	1,198
X-1 Timor-Leste Broadcasting	826	-	826	-	-	-	186	904	1,090	1,012	904	1,916
Total (Excluding Autonomous Agencies)	82,880	34,661	117,541	32,036	27,126	59,162	53,925	47,322	101,247	168,841	109,109	277,950
Autonomous Agencies	9,802	2,044	11,846							9,802	2,044	11,846
Total (Including Autonomous Agencies)	92,682	36,705	129,387	32,036	27,126	59,162	53,925	47,322	101,247	178,643	111,153	289,796

Table 6.2
Grouping of Ministries within the NDP/SIP Sectors

Basic Services Sector	Production Related Sector	Basic Infrastructure Sector	Governance Related Sectors
<u>Education and Training</u> Ministry of Education and Culture	<u>Agriculture, Forests and Fisheries</u> Ministry of Agriculture Forests and Fisheries	<u>Communications</u> Minister of Transport and Communications	<u>Public Sector Management</u> Ministry of Planning and Finance Ministry of State Administration
<u>Health Care</u> Ministry of Health	<u>Natural Resources and Environment</u> Ministry of Natural Resources, Minerals and Energy Policy	<u>Power</u> Ministry of Natural Resources, Minerals and Energy Policy	<u>Local Government</u> Ministry of State Administration
<u>Protection and Civil Society</u> Ministry of Labour and Solidarity Office of the Prime Minister and Presidency of the Council of Ministers	<u>Private Sector Development</u> Ministry of Development Secretary of State for Tourism and the Environment	<u>Transportation</u> Minister of Transport and Communications	<u>Rights, Equality and Justice</u> Ministry of Justice Tribunals Office of the Adviser to the Prime Minister on the promotion of Equality
		<u>Water Supply and Sanitation</u> Ministry of Natural Resources, Minerals and Energy Policy	<u>Security, Peace building and Reconciliation</u> Ministry of Defense National Police of Timor-Leste
		<u>Housing and Urban Development</u> Ministry of Public Works	<u>External Relations and Cooperation</u> Ministry of Foreign Affairs and Cooperation
			<u>Other Pillars of State</u> Office of the President of the Republic National Parliament Banking and Payments Authority Office of the Prime Minister

The share of combined sources allocations between sectors is similar to that in previous years. Table 6.1 shows that Infrastructure, Education and, Health remain the largest sectors in terms of the money anticipated to be spent in 2004-05. These are the same sectors that predominated last year demonstrating the Government's continued focus on poverty reduction through effort to improve education, health and infrastructure development outcomes.

The key difference this year is that the State Budget share of this total budget is increased in 2004-05. Last years Budget estimate (refer December's Supplementary Budget) showed the General Budget of the State shouldering around 44% of the Combined Sources expenditure. This has risen to around 51% in 2005-06 (Refer table 1.1).

Table 6.1 also highlights the heavy reliance of Government on development partner financing if Timor Leste is to make further progress towards the targets established NDP and MDG's. Clearly shown also is the large gap that exists between total desired expenditure and total committed financing. Of the \$160 million which the SIP's identify as desirable development partner funded project disbursements in 2005-06, \$101 million is so far not committed. This reflects the heavy emphasis placed by the Government over the past year on completing the SIP exercise and has diverted attention from the task of mobilising funds. The "new partnership" now sought by the Government will focus through SWG's on the mobilization of the required funding.

JAPANESE NON-PROJECT AID

The Government of Timor Leste has now entered into two agreements for the provision of aid in the form of goods procured by the Japanese Government on behalf of the Government of Timor-Leste. The value of these is:

- First agreement 300 million yen (approximately US\$2.4 million)
- Second agreement 500 million yen (approximately US\$4.5 million)

Purchases from the first grant are now largely realised. The Government of Timor-Leste has taken delivery of shipments of petroleum fuel, for electricity generation, and asphalt and cement for roads maintenance. Tenders have just been finalised for the supply of 4 electricity generators to be installed in Lautém (Los Palos) and Cova Lima (Suai) to replace aging generators in those districts.

The government is still negotiating a package of purchases from the second grant.

A requirement of this aid program is for the GOTL to establish a Counterpart Fund within which is set aside funds equal to at least 50% of the Free On Board value of goods received. These funds will be applied for the purposes of social/economic development. Funds will be set aside within CFET balances progressively as goods are received. This accumulation will be financed by reductions to individual Ministry budgets as the goods are made available to them.

GENERAL BUDGET OF THE STATE EXPENDITURES AND KEY NEW MEASURES

OVERVIEW

Table 6.3 provides a summary of 2005-06 State Budget expenditure by Ministry and by category of expenditure.

Table 6.3
General Budget of the State Total Allocations 2005-06

Organ of State		Recurrent Expenditure					Capital and Development	Total Expenditure
		Salaries	Goods and Services	Minor Capital	Total Recurrent			
A-1	Office of the President of the Republic	150	294	151	595	-	595	
B-1	National Parliament	610	542	46	1,198	113	1,311	
C-1	Office of the Prime Minister	361	2,986	101	3,448	2,000	5,448	
D-1	Ministry of Defence	1,784	5,868	525	8,177	1,600	9,777	
E-1	Secretariat of State for the Council of Ministers	59	293	41	393	-	393	
F-1	Ministry of State Administration	834	2,111	227	3,172	935	4,107	
G-1	Ministry of the Interior	740	607	19	1,366	90	1,456	
G-4	National Police of Timor-Leste	4,242	3,580	615	8,437	406	8,843	
H-1	Ministry for Development	123	252	29	404	-	404	
I-1	Secretariat of State for Tourism and Environment	70	97	10	177	-	177	
J-1	Ministry of Justice	905	3,146	125	4,176	1,465	5,641	
K-1	Ministry of Agriculture, Forestry and Fisheries	691	2,054	1,135	3,880	570	4,450	
L-1	Ministry of Education, Culture, Youth and Sports	11,921	4,225	451	16,597	1,612	18,209	
M-1	Ministry of Health	3,025	6,730	550	10,305	4,000	14,305	
N-1	Secretariat of State for Labour and Solidarity	232	373	2	607	253	860	
O-1	Ministry of Foreign Affairs and Cooperation	221	2,417	40	2,678	-	2,678	
P-1	Ministry of Planning and Finance	1,002	5,594	120	6,716	1,640	8,356	
Q-1	Ministry of Transport and Communications	367	891	378	1,636	981	2,617	
R-1	Ministry of Natural Resources, Minerals and Energy Policy	707	5,300	207	6,214	1,768	7,982	
S-1	Ministry of Public Works	231	445	129	805	6,545	7,350	
T-1	Secretariat of State for Youth and Sport	80	161	6	247	183	430	
U-1	Judiciary	227	209	67	503	-	503	
V-1	Banking and Payments Authority	-	240	-	240	10,500	10,740	
W-1	Provedor of Human Rights	53	20	10	83	-	83	
X-1	Broadcasting Service of Timor-Leste	310	516	-	826	-	826	
Total (Excluding Autonomous Agencies)		28,945	48,951	4,984	82,880	34,661	117,541	
R-8.1	Electricidade de Timor-Leste	36	7,496	197	7,729	1,000	8,729	
Q-10.1	Civil Aviation	143	618	120	881	944	1,825	
Q-11.1	Maritime	94	653	65	812	100	912	
Q-4.1	Equipment Management	71	209	100	380	-	380	
Total (Autonomous Agencies)		344	8,976	482	9,802	2,044	11,846	
Total Including Autonomous Agencies)		29,289	57,927	5,466	92,682	36,705	129,387	

Table 6.4
Key Measures of the 2005-06 Budget of the State 2005-06 to 2008-09

	2005-06	2006-07	2007-08	2008-09	Total
Total New Measures (Including Autonomous Agencies)	28,406	19,339	23,459	13,094	84,298
Salaries	121	203	230	257	811
Ministry of Agriculture, Forestry and Fisheries					-
<i>New Staff for Fisheries Inspections and Regional Agricultural Centres</i>	121	203	230	257	811
Ministry of Education and Culture					
<i>Transfer of Regional Agricultural College Staff</i>	-121	-121	-121	-121	- 484
Goods and Services and Minor Capital	11,421	6,150	4,852	3,266	25,689
President of the Republic					-
<i>New Security Cars for the President of the Republic</i>	151	-	-	-	151
Office of the Prime Minister and the Presidency of the Council of Ministers					
<i>Solidarity Fund</i>	1,500	-	-	-	1,500
<i>Operations of the Commission on Truth and Friendship</i>	500	500	-	-	1,000
National Parliament					-
<i>Increase the per diem paid to Deputies of the National Parliament from \$2.50 to \$5.00</i>	52	52	52	52	208
<i>Establishment of a Council of Advisors on Petroleum Fund Issues</i>	100	100	100	100	400
Ministry of State Administration					
<i>Election Costs for Chefe de Suco and Suco Council</i>	40				40
<i>Local Government Programme (UNDP)</i>	29	87	87	87	290
<i>Personnel Information Management System</i>	300	-	-	-	300
Secretary of State for Defence (FDTL)					-
<i>Equipment for Integrated Communications Systems</i>	400	-	-	-	400
<i>Operational Costs of the FDTL Previously Funded by Development Partners</i>	1,561	500	500	500	3,061
Ministry of the Interior Including (PNTL)					-
<i>Additional funds for National Security - catering</i>	60	60	60	60	240
<i>Upgrading Patrol car fleet</i>	217	100	25	0	342
<i>Increased operational costs of the Police Academy</i>	111	32	14	19	176
Ministry of Agriculture, Forestry and Fisheries					-
<i>Increased operational costs previously financed via TFET</i>	2,051	1,774	1,732		5,557
<i>Establishment of 3 Regional Centres</i>	226	299	337	349	1,211
Ministry of Foreign Affairs and Cooperation					-
<i>Opening of Consulates in Kupang and Denpasar</i>	159	123	131	136	549
Ministry of Health					-
<i>New Forensic Pathology Department at the Dili National Hospital</i>	47	21	29	31	128
<i>Additional financial support for SAMES (medical store)</i>	205	239	243	243	930
<i>Specialist training for midwives, health analysts and hospital management training</i>	340	340	340	340	1,360
Ministry of Justice					-
<i>Increase in operational costs</i>	312	295	257	244	1,108
Ministry of Planning and Finance					
<i>Counterpart Funds</i>	1,000	750	-	-	1,750
<i>Provision for Fuel</i>	1,000	-	-	-	1,000
<i>Provision for tax expenditures associated with TFET</i>	100	-	-	-	100
<i>Provision for tax refunds</i>	100	100	100	100	400
Ministry of Transport and Communications					
<i>Technical Planning Assistance</i>	198	-	-	-	198
<i>Acquisition of Meteorological Equipment</i>	100	128	150	200	578
Broadcasting Services of Timor-Leste					
<i>Operational Costs previously funded by development partners</i>	446	523	587	709	2,265
Tribunals					
<i>Increased operational costs</i>	116	127	108	96	447

Capital and Development	13,364	9,486	14,877	9,571	47,298
Office of the Prime Minister and the Presidency of the Council of Ministers					
<i>Construction of a new Conference Centre for Government</i>	2,000	-	-	-	2,000
National Parliament					
<i>Capital works within Parliamentary Complex</i>					
Ministry of State Administration					
<i>State Administration Offices in 5 Sub Districts</i>	300	-	-	-	300
<i>Office for National Printing</i>	400	-	-	-	400
<i>Local Government Development Programme (UNDP)</i>	192	526	526	526	1,770
Secretary of State for Defence (FDTL)					
<i>Integrated Communication System for Government</i>	1,600	-	-	-	1,600
Ministry of the Interior Including (PNTL)					
<i>Rehabilitation of PNTL building in Dili</i>	31	0	0	0	31
<i>Rehabilitation of 4 District buildings</i>	130	270	0	0	400
<i>Rehabilitation of Shooting range for Training Academy</i>	20	20	0	0	40
<i>Construction of Border Posts</i>	225	375	0	0	500
Ministry of Education and Culture					
<i>Rehabilitation of Ministry Office</i>	250	0	0	0	250
<i>University of Timor-Leste Future Works</i>	-	500	600	700	1,800
<i>Construction of Office for the Sports Division</i>	103	-	-	-	103
Ministry of Agriculture, Forestry and Fisheries					
<i>Rehabilitation of Agricultural Schools</i>	100	200	250	250	800
<i>Rehabilitation of Research Laboratory</i>	-	180	250	-	430
Ministry of Health					
<i>Baucau Reference Hospital construction - TFET counterpart funds</i>	-	-	4,000	-	4,000
<i>Saui Reference Hospital Construction - TFET counterpart funds</i>		2,000	-	-	2,000
<i>Dili National Hospital rehabilitation - TFET counterpart funds</i>	3,500	-	-	-	3,500
Ministry of Justice					
<i>Construction of an Office for the Public Notary</i>	650	-	-	-	650
<i>Construction of an Office for the Land and Property Directorate</i>	315	-	-	-	315
Ministry of Planning and Finance					
<i>Warehouses for Apprehended Customs Goods</i>					
Ministry of Labour and Community Reintegration					
<i>Garden/Memorial to the Victims of War</i>	253	-	-	-	253
Ministry of Public Works					
<i>Post Office Warehouses</i>	300	400	500	535	1,735
<i>Further Construction of Mini Markets</i>	50	100	285	450	885
<i>Building for Licencing and Registration</i>	100	-	-	-	100
<i>Additional funds for Water and Sanitation Development</i>	500	400	500	500	1,900
<i>Rehabilitation of bus terminals through Timor-Leste</i>	-	1,208	3,206	1,700	6,114
<i>Additional funding for selected road improvements</i>	200	150	150	-	500
<i>Additional funding for Bridge Rehabilitation</i>		1,350	1,500	1,500	4,350
<i>Additional funding for periodical road maintenance</i>	328	-	-	-	328
<i>Public Safety Campaign (Street Signs etc)</i>	100	100	150	200	550
<i>Rehabilitation and Construction of Various Buildings</i>	278	322	600	700	1,900
<i>Information Technology Rollout</i>	300	200	250	400	1,150
Autonomos Agencies					
<i>Increased Capital Improvements in Electricidade de Timor-Leste</i>	750	1300	1800	1800	5650
<i>Civil Aviation - Widening of Runway at Nicolau Lobato International Airport Dili</i>	864	10	60	60	994
<i>Increased capital works at Dili Port</i>	0	250	250	250	750
Investments	10,500	-	-	-	10,500
Banking Payments Authority					
<i>Capital Injection for the BPA</i>	10,500	-	-	-	10,500

Table 6.4 documents the key new measures that will be implemented through the 2005-06 Budget.

The 2005-06 General Budget of the State is one which sees significant growth in State expenditure. Total State expenditure, including by self funded agencies, is estimated to be \$136 million, an increase of \$43 million over the 2004-05 Revised Budget of \$93 million (refer table 1.4). This increase reflects a healthy rise in estimated Timor Sea Revenues and two key Government policies:

- Savings Policy – the Government will place all Petroleum revenues in the newly established Petroleum Fund and plans to withdraw up to the sustainable level of income from that fund for its annual budget; and
- Expenditure Policy – despite the significant rise in funding available from the estimated sustainable income of the Petroleum Fund, the Government will seek to maintain the quality of its expenditure – that is, through the annual Budget it will ensure that funds are only allocated for those purposes that are fully consistent with the National Development Plan and Sector Investment Programs and where the capacity to execute the Budget exists.

The increase in State Budget expenditure also reflects the movement onto the Government's Budget of a number of expenditures which are core and ongoing government purposes and which would otherwise have been funded off-Budget. This move reflects the Government's desire to commence a move gradually to reflect all Government activity on-Budget and under national control. This is consistent with the approach discussed with Development Partners in framing the Consolidation Support Program (CSP), the successor to the highly successful TSP arrangements.

The large increase in the 2005-05 budget arises from a number of factors:

- Funding to allow for population growth impacts on the Ministries of Health and Education;
- The need to meet payments for core service delivery costs that were previously met by donors off-budget. These include Defense logistics contracts, the Forensic Pathology laboratory and a range of previously TFET and donor funded activities in the Ministry of Agriculture, Forests and Fisheries
- Funding to allow for the necessary expansion of services in key areas. For example, primary education where both the population in the target age group is increasing and the participation rate, the establishment of a new fisheries licensing regime;
- An acceleration of investment spending in the Capital and Development category to undertake more essential infrastructure work from within the State Budget; and
- Increases to reflect input cost increases particularly the price of fuel both for electricity generation and for vehicles (\$1 million). All spending categories have increased in the 2005-06 Budget as illustrated in Table 6.5.

Table 6.5
General Budget of the State (General Government) Aggregate Figures

	2004-05 Est	2005-06 Est	2006-07 Est	2007-08 Est	2008-09 Est	Total 4 Years
Salaries	28.2	28.9	31.3	32.3	33.6	126.1
Goods and Services	39.6	49.0	49.5	50.1	50.7	199.2
Minor Capital	2.2	5.0	4.1	3.9	4.4	17.4
Major Capital	8.7	34.7	19.3	23.2	18.4	95.5
Total Expenditure	78.7	117.5	104.1	109.5	107.1	438.3

Salaries have increased to fund the full approved staffing profile of the Government. The 2004-05 figure is an estimated actual and reflects the fact that staffing levels have been slightly below the approved levels for much of 2004-05. Future year estimates allow for small increases in salary levels and assume no increase in the staffing profile. The Government will examine the current staffing profile of 17,200 during the year with a view to determining how the profile should be managed over the next 4 years to take account of the increasing number of core activities being undertaken through the State Budget.

Goods and services allocations have grown significantly due to a number of factors. These include:

- Increased running costs particularly for fuel for electricity generation and motor vehicle operation;
- Larger allocations for professional services to allow the contracting of expert advice and support for Government programs. For example, the introduction for the Petroleum Fund will require expert advisers to advise the National Parliament and also the head of the Ministry for Planning and Finance in their roles of oversight and governance of the Fund. A provisional allocation of \$200,000 has been provided to these agencies for this purpose;
- The assumption of costs previously borne by Development Partners, such as the logistics support contracts for the defense forces (\$1.56 million), the establishment of a forensic pathology laboratory by the Ministry of Health (\$0.1 million) to replace the facility previously provided by the UN, and subsidisation of the Public Broadcasting Service (\$0.8 million).
- The creation of a Solidarity Fund to be used by Government to provide humanitarian aid to the population in times of hunger, disaster, and other adversity (\$1.5 million).
- Meeting the operating expenses of new activities (e.g. the facilitation of an off-shore fishing and licensing regime - \$0.1 million) and the required expansion of activities (new primary schools and additional students).

Minor Capital expenditure has increased largely due to expenditure aimed at equipping the Civil Service to take more of its core and ongoing expenditure on-Budget. That is, much of the equipment to be purchased would otherwise have been provided off-budget by Development Partners. Examples include:

- New and replacement vehicle purchases for the police, agriculture, and a various other institutions are allocated \$1.5 million.
- New communications equipment to better link regional the operations of Ministries and security forces across the country are allocated some \$0.75 million.
- Equipment purchases for new laboratory installations in the Ministries of Health and Agriculture, Forestry and Fishing contribute to the increase in minor capital purchases, as do equipment purchases by the Ministry of Public Works.

Capital and development spending has grown significantly is compared with 2004-05. This increase is important for two reasons. First, infrastructure development is a particular priority for the Government at this time in the nation's development. It is important that this priority be reflected in the Government's own budget rather than largely left to off-budget activities funded by Development Partners.

Secondly, the maintenance of a relatively high proportion of expenditure in one-off capital investments retains strong flexibility in the medium term budget position of the Government. Given Timor Leste's heavy reliance on a single revenue producing commodity (Timor Sea Oil reserves), and the inherent volatility of prices in market prices, it is important that the State Budget retains the ability to respond to medium term downturns in the oil revenues. Recurrent expenses, that is, Salaries and Goods and Services, usually involve the funding of local employees and the delivery of much needed services to the population generally. They are therefore, very difficult to reduce once established without significant disruption. Conversely, new capital and development projects can be rescheduled in such an event without major disruption.

The total Capital and Development program for 2005-06 comprises \$10.2 million in new project expenditure, \$8.5 million in ongoing projects approved in prior Budgets and the investment of \$10.5 million in the capitalization of the BPA. Key new investments include:

- Capital Injection to the central bank to raise its capital adequacy. \$10.5 million is to be provided in 2005-06.
- Construction of a new Government conference centre in Dili (\$2.0 million)
- Installation of a new integrated communications system for government to be used by the military, police, emergency services and other ministries as required (\$1.6 million)
- Finishing off of the construction of the garden to the victims of the War in Metinaro (\$0.25 million)
- Increased funding for the development of water and sanitation facilities (\$0.5 million)
- Increased funding for the maintenance and improvement of roads and for road safety initiatives (\$0.62 million)

- Upgrading IT infrastructure across Government (\$0.3 million)
- Capital grants to local governments under the UNDP local government program (\$0.2 million, rising to \$0.5 million per annum in the out years)
- \$2.9 million has been provided for the rehabilitation of government buildings, including \$0.3 million for the rehabilitation of district administration buildings.
- Budget Decisions that do not impact on expenditures in 2005-06 but which will impact from 2006-07 include: \$1.8 million for building and construction works for the new University of Timor Leste location over the next four years; \$6.1 million for the rehabilitation of bus terminals over four years; and a further increase in funding for the rehabilitation of bridges over of around \$4.4 million, These forward commitments will assist the relevant Government agencies in planning to better execute their future Capital and Development Budget.

It should be noted that these new approvals build on the existing program for which approvals were made in previous years. For example, increased funding for water and sanitation (\$500,000 per annum) is in addition to existing allocations for development projects and emergency response averaging \$1.5 million per annum. In Education, new funding averaging \$0.6 million has been allocated for works at the University of Timor Leste, in addition to on-going annual allocations averaging \$1.6 million for the construction and rehabilitation of schools.

Further detail on the Capital and Development projects, both ongoing and new, funded through the budget are contained in Annexe 3. Readers will note that projects listed in the appendix provide additional detail this year compared to previous years. Where possible, capital projects are listed in accordance with the regions/districts in which they fall. This presentation will add transparency to the Capital and Development Budget and provide a tool for the new Secretaries of State for each region to drive implementation of projects in their region.

Budget Execution - The increase in the State Budget will put significant pressure on the Civil Service to lift its rate of Budget execution. Much attention has been paid to this issue over the last year. Improved Budget execution will require a mixture of responses including: structural change; review and reform of processes; and improved knowledge of the system of procurement by all parties; to name but a few. Specific initiatives in place, or planned, include:

- Changes to the structure of Government such as the realignment of Ministries and the appointment of a number of additional Secretaries of State are a direct response to this issue. (See following paragraph).
- More complete documentation of budget plans, particularly in relation to capital projects which are reported now on a specific project and geographical basis so execution can be more effectively monitored.
- The Prime Minister, last year, established and oversees a committee to examine and monitor budget Execution by line ministries.
- Reviews of the procurement processes within MOPF have resulted in consideration of an increase to the threshold for purchase made directly by line ministries without having to engage central approval processes administered by MOPF. Consideration is also being given to a range of issues impacting of the administration of Budget expenditures in the Districts.
- Further work is planned to better educate Ministries on the Procurement process and how to work within them;
- Following the example of the Ministry of Health t, the Ministry of the Education, Culture, Youth and Sport, the Ministry of Public works and the Ministry of the Agriculture, Forests and Fisheries have nominated a senior staff member to work directly with Procurement to follow up and to speed up the processes improving the budgetary execution in these Ministries

These measures are for the 2005-06 fiscal year and follow the continued efforts of the Government to continually improve budgetary execution.

This commitment is well demonstrated by the recently announced changes to administrative arrangements in Government. These include:

- The creation of five new positions, being four Secretaries of State for Regional co-ordination and one Secretary of State resident in Oe-Cusse. These positions will have responsibility for ensuring that Government services and infrastructure in each region are appropriately targeted and delivered in a timely manner. Their responsibility will be to work with District administrators and other local leaders. They will report to the Prime Minister. Their role will

also be to ensure that planning and resource allocation processes of Government in future will be well informed about, and driven by, the needs of the regions, a key requirement to avoid the Government's decision processes from becoming Dili-centric.

- A new Ministry of Public Works will be established to focus attention more clearly on infrastructure investment and to drive budget execution in this area. The separation of Public Works from the very large and complex Ministry of Communications, Transport and Public Works will ensure that management focus on public works investment is not diluted by a focus on the other important areas of the Ministry.

The Ministry of Education, Youth, Culture and Sport will also be split to form the Ministry of Education and Culture with the Youth and Sport activities allocated to a new Secretary of State. The current Ministry has struggled with budget execution in the past. This split should allow more focused attention on the delivery (and therefore budget execution) of education services throughout the country.

CONSOLIDATION SUPPORT PROGRAM (CSP)

The CSP replaces the highly successful Transition Support Program (TSP) which has been a vehicle for direct budget support by Development Partners and also for a regular policy dialogue between the Government and Development Partners.

Underlying the CSP is the Government's desire to begin to grow its State Budget so that, over time, it moves towards the ultimate objective of conducting all core and on-going Government activities under that control of its consolidated budget. Small steps have been made towards this objective in 2005-06 with a number of activities and inputs being brought on-budget. Most of these are expenditures that have previously been met off-budget, by Development Partners, or are indicated in the SIP reports as future Development Partner contributions. In selecting activities to be newly included in the Budget the Government has been mindful of the need to ensure that new State Budget expenditure can in fact be executed. The Budget Review Committee took pains to explore this avenue whenever new spending was being considered for inclusion in the Budget. In some cases, activities were rejected because the BRC could not be convinced regarding executability.

Examples of the inclusion of these expenditure in the budget are:

- Ministry of Health, the establishment of a forensic pathology laboratory (\$0.1 million)
- Ministry of Agriculture, Forestry and Fishing, the establishment of an off-shore fishing and licensing regime, expanded agriculture extension services and the creation of a regional office network to better service the regions (\$2.2 million) Ministry of Defense, taking over the logistics support outsourced contracts (\$1.5 million).
- Upgrading the Government's shared communication and information technology systems (\$2.0 million).
- The implementation of the Timor Leste identity card (\$1.9 million).

Table 6.6
Achievements against TSP Targets 2005-06 TO 2008-09 (%)

	2005-06	2006-07	2007-08	2008-09	Total
Education and Health as % of Total Expenditure	32.5%	36.8%	38.7%	38.2%	36.6%
Primary Education as % of Education	45.9%	45.5%	45.4%	45.2%	45.4%
Hospitals Expenditure as % of Health	38.3%	39.5%	36.8%	39.1%	38.4%
Security Expenditure as % of Total Expenditure	20.1%	19.3%	19.7%	19.4%	19.6%
Agriculture Expenditure as % of Total Expenditure	4.7%	4.5%	4.5%	4.8%	4.6%

The - General Budget of the State continues the commitment of the Government's vision to the reduction of poverty. Some of the TSP parameters will suffer a decline, namely:

- Education and Health recurrent expenditure as a percentage of total recurrent State Budget expenditure has a target of greater than 35%. Due to a number of compositional changes in the 2005-06 which see many new services funded from State Budget for the first time (refer comment regarding CSP Program), the percentage of total Budget for these Ministries has declined from 36.4% in 2004-05 to around 32% this year. This shift is also contributed to by the fact that for the 2005-06 Budget neither Ministry has been allocated significant growth in funding.
- However, the forward projections show that the target will be achieved in 2006-07 and beyond as programmed growth funding, particularly for Education, will again lift the share. Growth funding is based on SIP forecasts for school age population growth and participation rates

The Budget proposed for hospitals is 38.3 % of the total recurrent Health Budget, well within the target of less than 40%.

The recurrent spending of the defence security forces (FDTL and PNTL) comprise in aggregate 19.6 % of the total recurrent Budget, well below Government policy to keep these expenditures below 25% of the total Budget.

STAFFING NUMBERS AND ISSUES

Public sector staff numbers are coming under pressure as the Government expands the range of activities it undertakes through the State Budget. For 2005-06, staff numbers will remain broadly within the agreed staffing profile of 17,200. Table 6.7 sets out these figures in some detail.

In considering the submissions for the 2005-06 Budget the Budget Review Committee (BRC) recognised that the ceiling of 17,200 will need to be reviewed. A number of line ministries made requests for increased staff numbers in order to extend the range of their activities. In considering this situation, BRC was mindful of the Government's position that the Civil Service should remain "lean and efficient". It has therefore undertaken to review the position after the budget has been completed with a view to establishing guidelines for the 2006-07 Budget.

It is clear that some increases will be necessary; however, these need to be considered in the light of current under employment by most ministries, and the availability of alternate strategies such as contracting out services rather than direct employment and service delivery.

Table 6.7
Total Staffing 2005-06

	L1	L2	L3	L4	L5	L6	L7	Total
Official Civil Servants	642	991	6,504	3,419	629	248	21	12,454
Permanent	615	918	6,352	3,344	607	221	20	12,082
Temporary	27	73	152	70	22	27	1	372
Non Civil Service Government Staff	605	3,153	599	419	229	44	33	5,082
Permanent	575	3,114	536	386	69	4	2	4,686
Temporary	30	39	63	33	160	40	31	396
Autonomous Agency Staff	79	178	163	121	50	21	12	624
Permanent	52	166	145	64	27	10	2	466
Temporary	27	12	18	57	23	11	10	158
Total	1,326	4,322	7,266	3,959	908	313	66	18,160
Permanent	1,242	4,198	7,033	3,799	703	235	24	17,234
Temporary	84	124	233	160	205	78	42	926

FUNDING OVERVIEW AND MEASURES BY MINISTRY AND SECRETARY OF STATE

Office of the President

Table 6.8
Funding and Staffing Overview Office of the President (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	140	150	155	160	165	630
Goods and Services	220	294	288	288	288	1,158
Minor Capital	20	151	38	38	38	265
Total Recurrent Expenses	380	595	481	486	491	2,053
<i>Growth on Previous Year</i>		56.6%	-19.2%	1.0%	1.0%	-17.5%
Total Capital and Development	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Total General Budget of the State	380	595	481	486	491	2,053
<i>Growth on Previous Year</i>		56.6%	-19.2%	1.0%	1.0%	-17.5%
Confirmed Funds From Other Sources						
Recurrent Expenses	-	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	-	-	-	-	-	-
<i>Growth on Previous Year</i>						
Combined Sources Budget						
Recurrent Expenses	380	595	481	486	491	2,053
<i>Growth on Previous Year</i>		56.6%	-19.2%	1.0%	1.0%	-17.5%
Capital Expenses	-	-	-	-	-	-
<i>Growth on Previous Year</i>						
Total Combined Sources Budget	380	595	481	486	491	2,053
<i>Growth on Previous Year</i>		56.6%	-19.2%	1.0%	1.0%	-17.5%
Further Funding Required						
Recurrent Expenses	-	300	1,300	300	300	2,200
Capital Expenses	-	150	-	-	-	150
Total	-	450	1,300	300	300	2,350

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	14	8	15	8	9	6	4	64
Temporary	3	5	2	0	0	0	0	10
Total	17	13	17	8	9	6	4	74

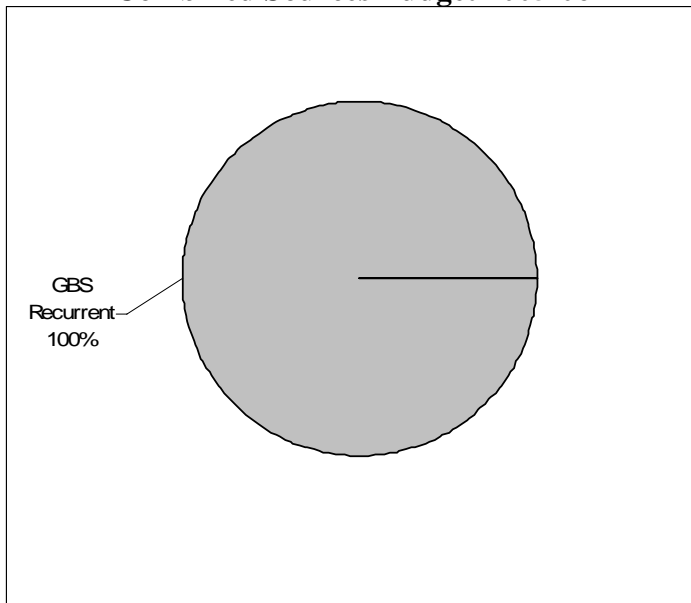
THE ROLE OF THE OFFICE OF THE PRESIDENT AND INTEGRATION WITH THE SIPS

The role of the Office of the President is to support the President of the Republic to achieve an efficient democracy that allows the active participation of the population in national development. Activities of the Office of the President are contained in the "Pillars of State" SIP.

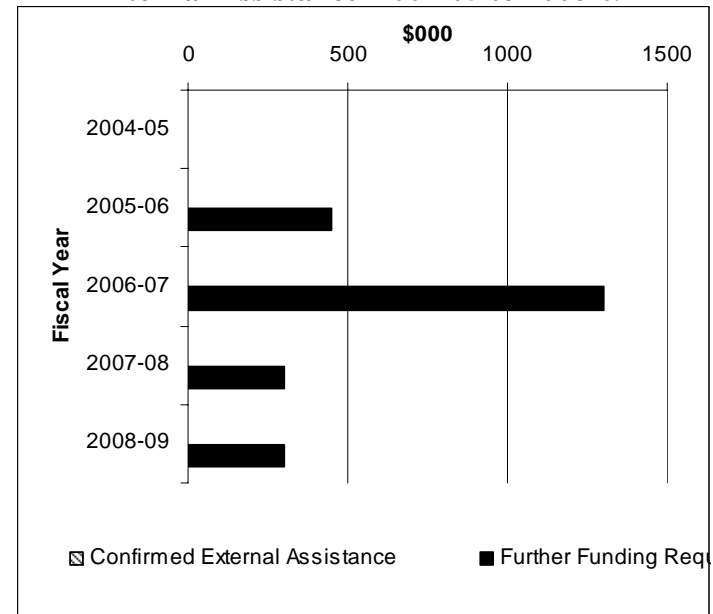
GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

The Office of the President will spend \$151,000 to acquire new security cars for the President of the Republic to replace the current fleet which are inadequate for the many visits the President is required to make in exercising his functions. Additional funding was provided because of the many official functions which involve the president in his consultations with communities in Dili and the districts.

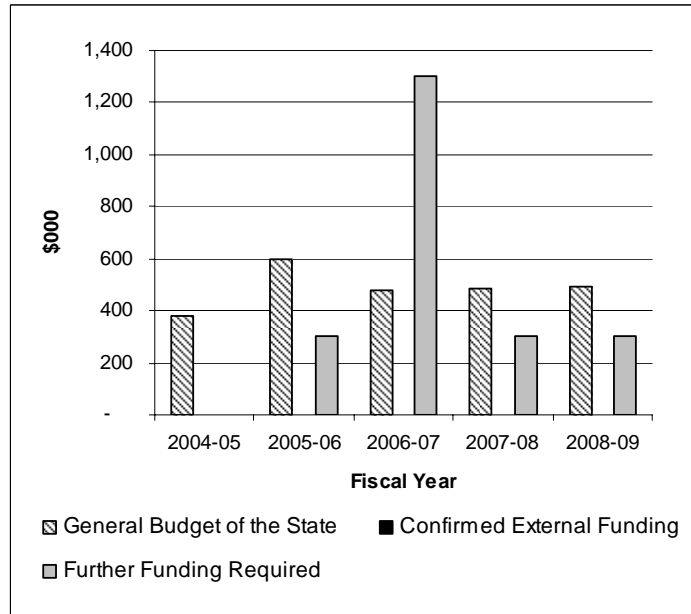
Combined Sources Budget 2005-06



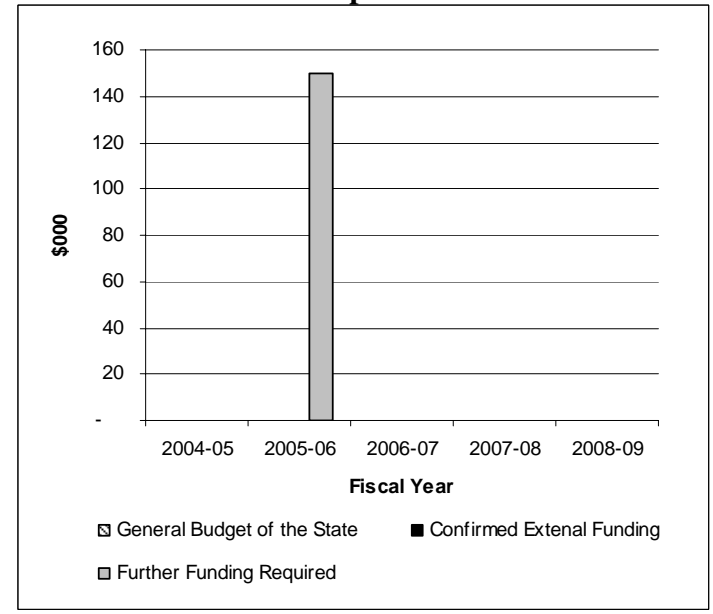
External Assistance 2004-05 to 2008-09



**Chart 6.3
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.4
Combined Sources Capital 2004-05 to 2008-09**



National Parliament

Table 6.9
Funding and Staffing Overview National Parliament (\$'000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	579	610	649	665	684	2,608
Goods and Services	338	542	648	676	710	2,576
Minor Capital	13	46	40	50	60	196
Total Recurrent Expenses	930	1,198	1,337	1,391	1,454	5,380
<i>Growth on Previous Year</i>		28.8%	11.6%	4.0%	4.5%	21.4%
Total Capital and Development	-	113	-	-	-	113
<i>Growth on Previous Year</i>		na	-100.0%	na	na	
Total General Budget of the State	930	1,311	1,337	1,391	1,454	5,493
<i>Growth on Previous Year</i>		41.0%	2.0%	4.0%	4.5%	10.9%
Confirmed Funds From Other Sources						
Recurrent Expenses	528	528	-	-	-	528
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	528	528	-	-	-	528
<i>Growth on Previous Year</i>						
Combined Sources Budget						
Recurrent Expenses	1,458	1,726	1,337	1,391	1,454	5,908
<i>Growth on Previous Year</i>		18.4%	-22.5%	4.0%	4.5%	-15.8%
Capital Expenses	-	113	-	-	-	113
<i>Growth on Previous Year</i>		na	-100.0%	na	na	-100.0%
Total Combined Sources Budget	1,458	1,839	1,337	1,391	1,454	6,021
<i>Growth on Previous Year</i>		26.1%	-27.3%	4.0%	4.5%	-20.9%
Further Funding Required						
Recurrent Expenses	-	400	2,900	400	400	4,100
Capital Expenses	-	-	-	-	-	-
Total	-	400	2,900	400	400	4,100

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	5	11	12	5	8	1	1	43
Temporary	7	0	2	0	0	3	0	12
Total	12	11	14	5	8	4		54

THE ROLE OF THE NATIONAL PARLIAMENT AND INTEGRATION WITH THE SIPS

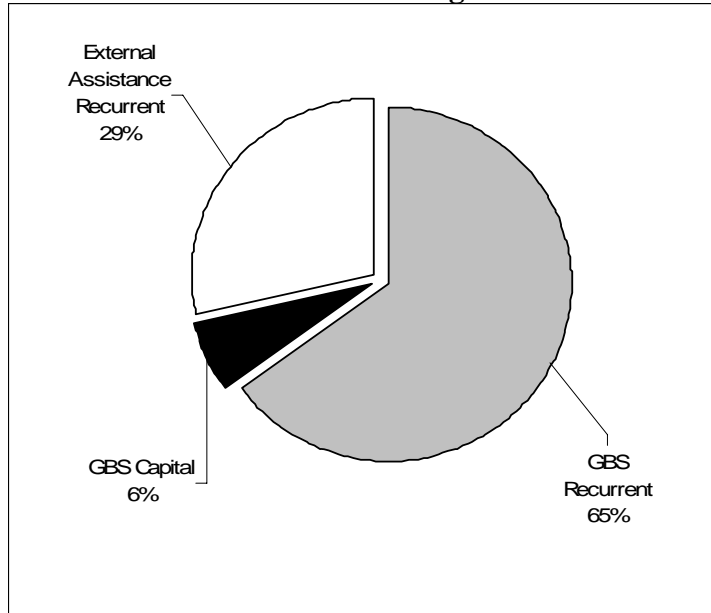
The role of the National Parliament is to develop and foster the debate of ideas which contributes appropriately formulated legislation responding to the national priorities of Timor-Leste. Activities of the National Parliament are contained within the "Pillars of State" SIP.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

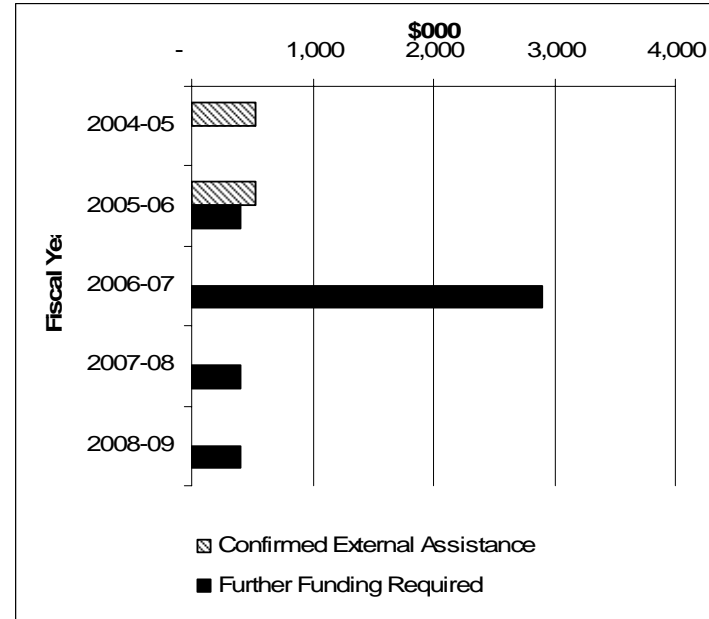
Additional budget funding has been provided to the National Parliament to fund:

- an increase in the daily rate of per diem paid to the Deputies of the National Parliament from \$2.50 to \$5;
- rehabilitative works in the Parliamentary complex, particularly the canteen and the Office of the President of the Parliament; and
- a new advisory council will be established to advise Deputies of the National Parliament on the good governance of the new Petroleum Fund.

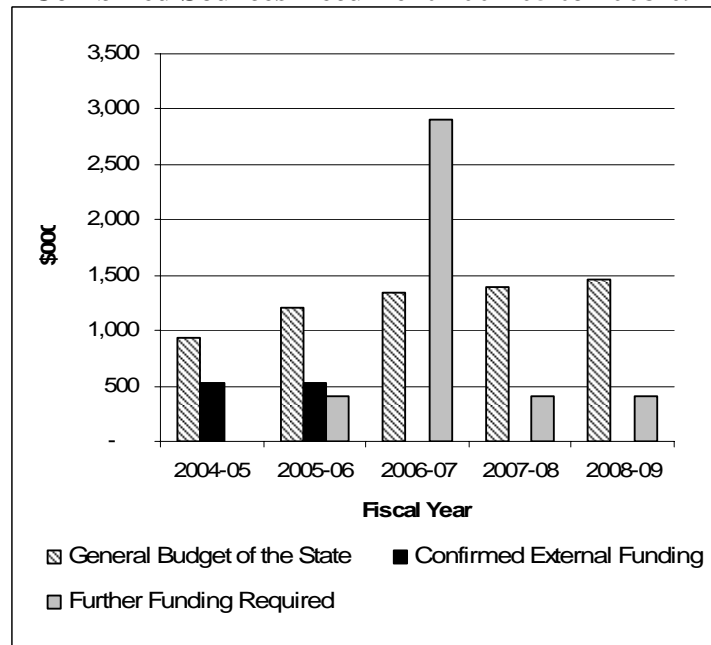
**Chart 6.5
Combined Sources Budget 2005-06**



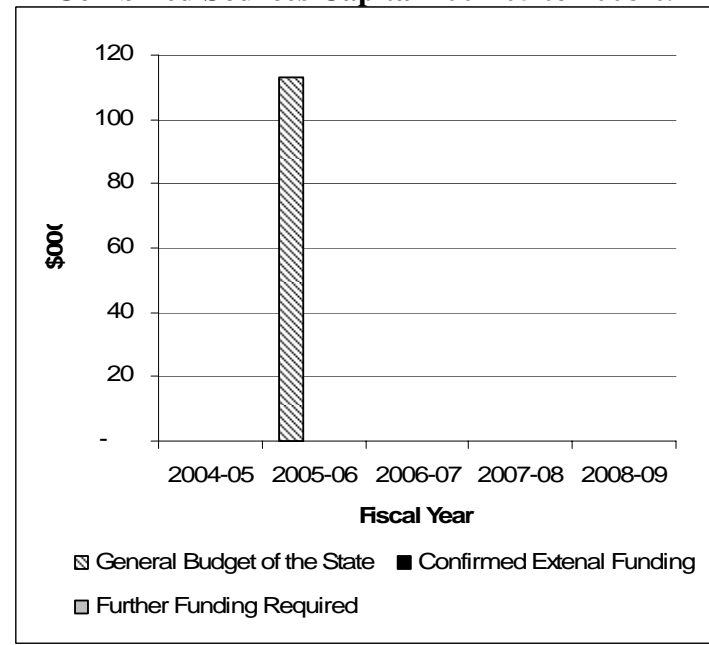
**Chart 6.6
External Assistance 2004-05 to 2008-09**



**Chart 6.7
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.8
Combined Sources Capital 2004-05 to 2008-09**



Office of the Prime Minister & Presidency of the Council of Ministers

Table 6.10
Funding and Staffing Overview Office of the Prime Minister & Presidency of Council of Ministers (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	227	361	373	383	396	1,513
Goods and Services	709	2,986	2,899	2,438	2,494	10,817
Minor Capital	15	101	40	44	53	238
Total Recurrent Expenses	951	3,448	3,312	2,865	2,943	12,568
<i>Growth on Previous Year</i>		262.6%	-3.9%	-13.5%	2.7%	-14.6%
Total Capital and Development	-	2,000	-	-	-	2,000
<i>Growth on Previous Year</i>		na	-100.0%	na	na	-100.0%
Total General Budget of the State	951	5,448	3,312	2,865	2,943	14,568
<i>Growth on Previous Year</i>		472.9%	-39.2%	-13.5%	2.7%	-46.0%
Confirmed Funds From Other Sources						
Recurrent Expenses	1,758	793	184	81	2,816	3,874
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	1758	793	184	81	2816	3,874
<i>Growth on Previous Year</i>		-54.9%	-76.8%	-56.0%	3376.5%	255.1%
Combined Sources Budget						
Recurrent Expenses	2,709	4,241	3,496	2,946	5,759	16,442
<i>Growth on Previous Year</i>		56.6%	-17.6%	-15.7%	95.5%	35.8%
Capital Expenses	-	2,000	-	-	-	2,000
<i>Growth on Previous Year</i>		na	-100.0%	na	na	-100.0%
Total Combined Sources Budget	2,709	6,241	3,496	2,946	5,759	18,442
<i>Growth on Previous Year</i>		130.4%	-44.0%	-15.7%	95.5%	-7.7%
Further Funding Required						
Recurrent Expenses	410	955	1,075	900	850	3,780
Capital Expenses	-	-	-	-	-	-
Total	410	955	1,075	900	850	3,780

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent		4	15	12	15	7		53
Temporary	5	4	3	3	4		1	20
Total	5	8	18	15	19	7	1	73

THE ROLE OF THE OFFICE OF THE PRIME MINISTER & PRESIDENCY OF THE COUNCIL OF MINISTERS AND INTEGRATION WITH THE SIPS

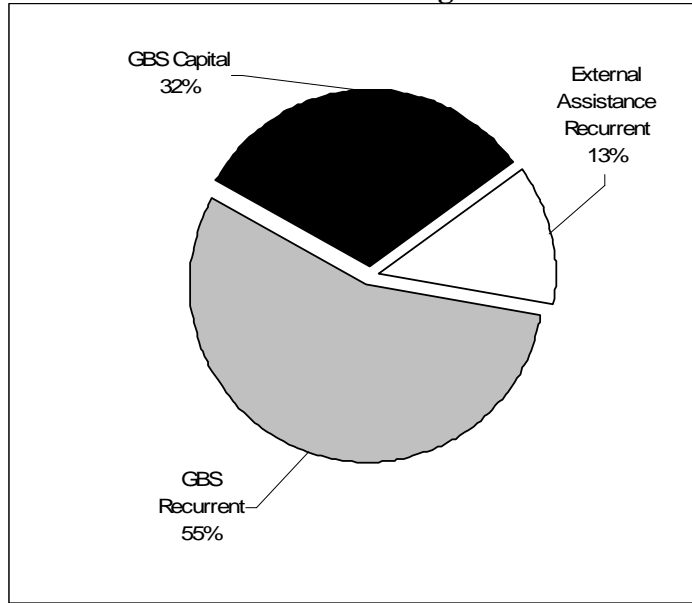
This entity comprises a number of roles over which the Prime Minister exercises direct oversight. Included among these are the Council of Ministers and Parliamentary Affairs, the Office of the Inspector General, National Security, Capacity Development and the Timor Sea Office. The activities of the Office of the Prime Minister and the Presidency of the Council of Ministers are spread amongst a number of sectors, these include: "Public Sector Management"; "Rights Equality and Justice"; "Pillars of State" and "Natural Resources and Development".

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

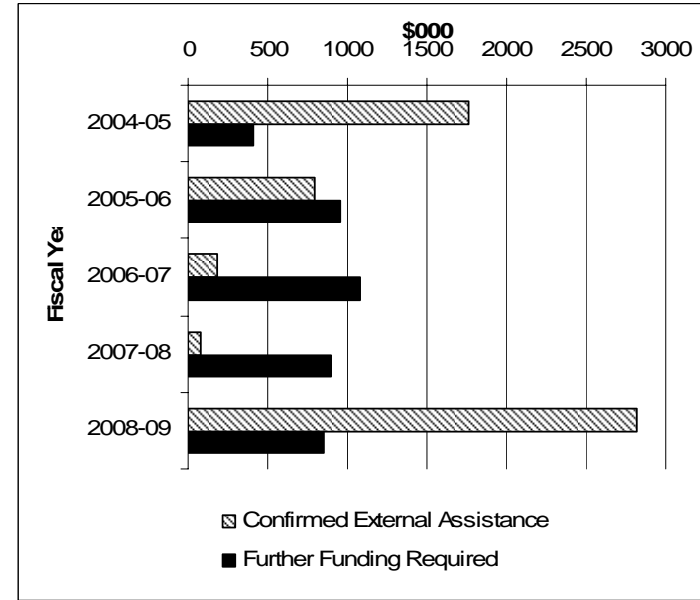
Additional budget funding has been provided to the Office of the Prime Minister and the Presidency of the Council of Ministers to fund:

- the construction of a Government conference centre in Caicoli, Dili;
- rehabilitative works on the official residence of the Prime Minister;
- additional official vehicles;
- increased provision of public information from the Office of the Prime Minister;
- the joint Timor-Leste/Indonesian Commission for Truth and Friendship; and
- a solidarity fund of \$1.5 million for natural disaster relief and victims of violence

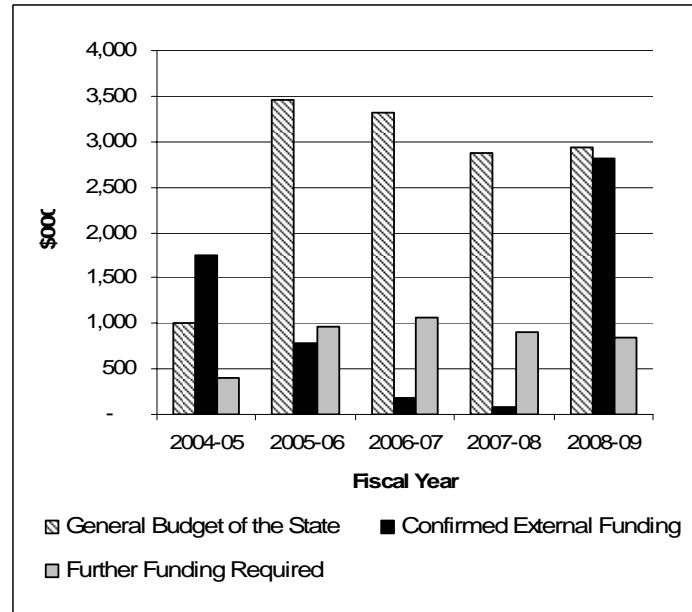
**Chart 6.9
Combined Sources Budget 2005-06**



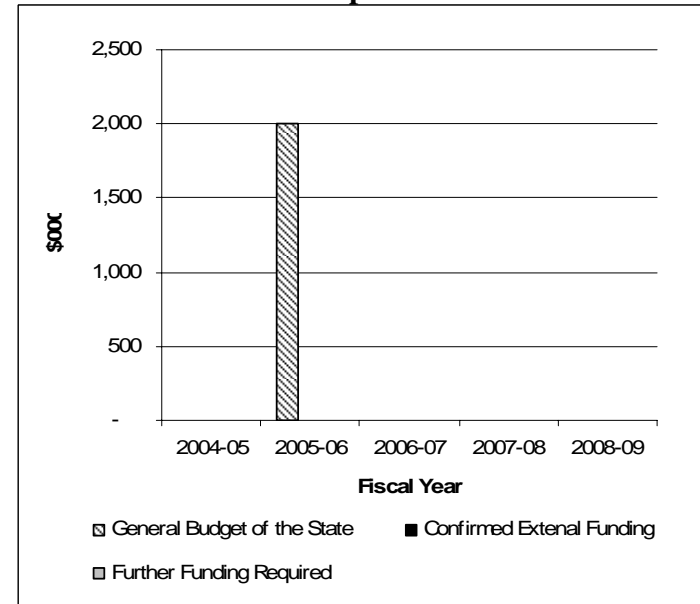
**Chart 6.10
External Assistance 2004-05 to 2008-09**



**Chart 6.11
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.12
Combined Sources Capital 2004-05 to 2008-09**



Ministry of Defence

Table 6.11
Funding and Staffing Overview Ministry of Defence (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	1,712	1,784	1,794	1,795	1,794	7,167
Goods and Services	4,229	5,868	5,917	5,921	5,927	23,633
Minor Capital	53	525	37	37	37	636
Total Recurrent Expenses	5,994	8,177	7,748	7,753	7,758	31,436
<i>Growth on Previous Year</i>		36.4%	-5.2%	0.1%	0.1%	-5.1%
Total Capital and Development	-	1,600	-	-	-	1,600
<i>Growth on Previous Year</i>		na	-100.0%	na	na	-100.0%
Total General Budget of the State	5,994	9,777	7,748	7,753	7,758	39,030
<i>Growth on Previous Year</i>		63.1%	-20.8%	0.1%	0.1%	-20.7%
Confirmed Funds From Other Sources						
Recurrent Expenses	-	-	-	-	-	-
Capital Expenses	942	-	-	-	-	-
Total Confirmed Funds from Other Sources	942	0	0	0	0	-
<i>Growth on Previous Year</i>		-100.0%	na	na	na	na
Combined Sources Budget						
Recurrent Expenses	5,994	8,177	7,748	7,753	7,758	31,436
<i>Growth on Previous Year</i>		36.4%	-5.2%	0.1%	0.1%	-5.1%
Capital Expenses	942	1,600	-	-	-	1,600
<i>Growth on Previous Year</i>		69.9%	-100.0%	na	na	na
Total Combined Sources Budget	6,936	9,777	7,748	7,753	7,758	33,036
<i>Growth on Previous Year</i>		41.0%	-20.8%	0.1%	0.1%	-20.7%
Further Funding Required						
Recurrent Expenses	-	-	-	-	-	-
Capital Expenses	400	11,800	6,500	-	-	18,300
Total	400	11,800	6,500	-	-	18,300

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	576	327	396	123	33	4	4	1463
Temporary	0	0	0	0	0	0	0	0
Total	576	327	396	123	33	4	4	1463

THE ROLE OF THE MINISTRY OF DEFENCE AND INTEGRATION WITH THE SIPS

The Role of the Ministry Secretariat is to oversee the development of the nation's defense forces, the FDTL. The activities of the Ministry of Defence are contained in the "Security, Peace building and Reconciliation" SIP.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

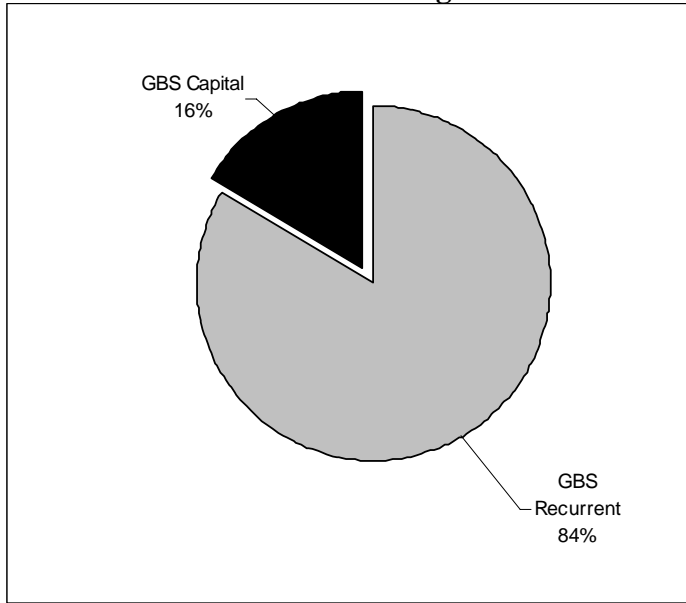
The budget for Minor Capital and Capital and Development has increased considerably, from a \$53,000 in 2004-05 to a total of \$2.125 million in 2005-06. This funding is principally to establish a new communications system for the defence forces. An amount of \$1.6 million has been allocated in Capital and Development for the construction of a communications tower and \$400,000 is provided in the Minor Capital budget for the purchase of communications equipment.

By 2005-06, there will be 1,435 military personnel. In the Supplementary Budget for 2004-05, an additional \$303,000 was provided for Good and Services for cleaning and catering services and fuel. For Capital and Development, \$343,000 was provided to complete the construction of the barracks at Baucau military base.

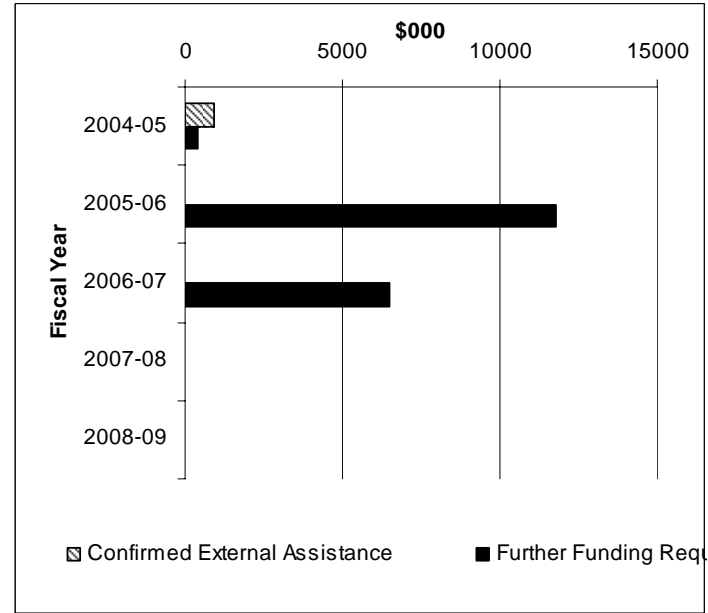
Additional funding of \$967,000 is required in 2005-06 to meet the ongoing costs of cleaning and catering contracts that have previously been met by donors.

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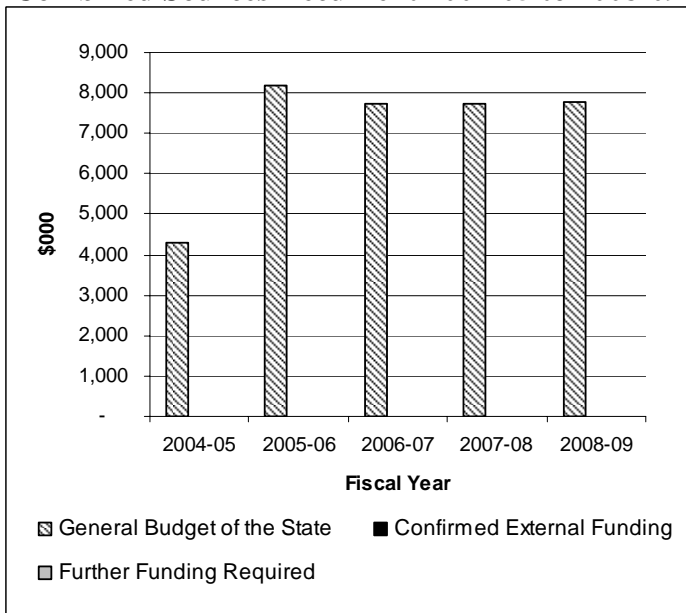
**Chart 6.13
Combined Sources Budget 2005-06**



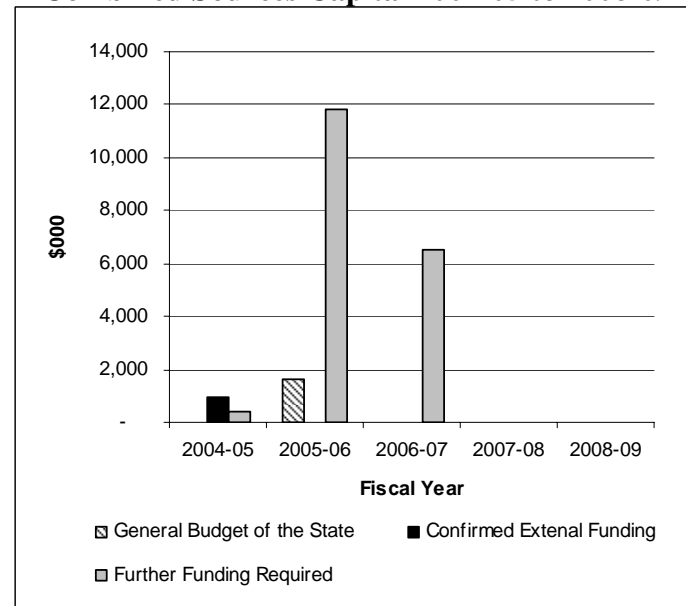
**Chart 6.14
External Assistance 2004-05 to 2008-09**



**Chart 6.15
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.16
Combined Sources Capital 2004-05 to 2008-09**



Secretary of State of the Council of Ministers

Table 6.12
Funding and Staffing Overview Secretary of State of the Council of Ministers (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	59	59	60	61	61	241
Goods and Services	280	293	297	305	305	1,200
Minor Capital	41	41	41	41	41	164
Total Recurrent Expenses	380	393	398	407	407	1,605
<i>Growth on Previous Year</i>		3.4%	1.3%	2.3%	0.0%	3.6%
Total Capital and Development	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Total General Budget of the State	380	393	398	407	407	1,605
<i>Growth on Previous Year</i>		3.4%	1.3%	2.3%	0.0%	3.6%
Confirmed Funds From Other Sources						
Recurrent Expenses	-	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	#DIV/0!
Combined Sources Budget						
Recurrent Expenses	380	393	398	407	407	1,605
<i>Growth on Previous Year</i>		3.4%	1.3%	2.3%	0.0%	3.6%
Capital Expenses	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Total Combined Sources Budget	380	393	398	407	407	1,605
<i>Growth on Previous Year</i>		3.4%	1.3%	2.3%	0.0%	3.6%
Further Funding Required						
Recurrent Expenses	-	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total	-	-	-	-	-	-

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	0	3	4	6	8	2	1	24
Temporary	0	0	0	0	0	0	0	0
Total	0	3	4	6	8	2	1	24

THE ROLE OF THE SECRETARIAT OF STATE FOR THE COUNCIL OF MINISTERS AND INTEGRATION WITH THE SIPS

The role of the Secretariat of State for the Council of Ministers is to support the efficient and effective functioning of the Council; and to provide translation services. The activities of the Secretariat of State for the Council of Ministers is contained in the SIP on "Other Pillars of the State"

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

There are no additional initiatives in 2005-06

Chart 6.17
Combined Sources Budget 2005-06

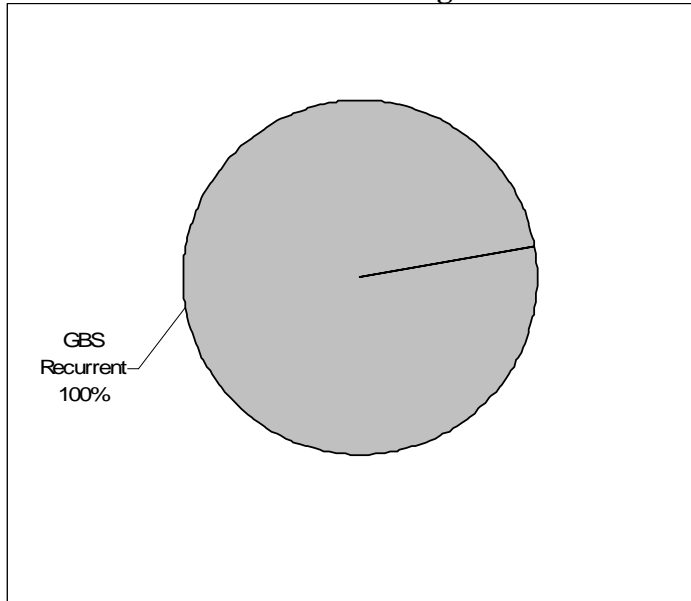


Chart 6.18
External Assistance 2004-05 to 2008-09

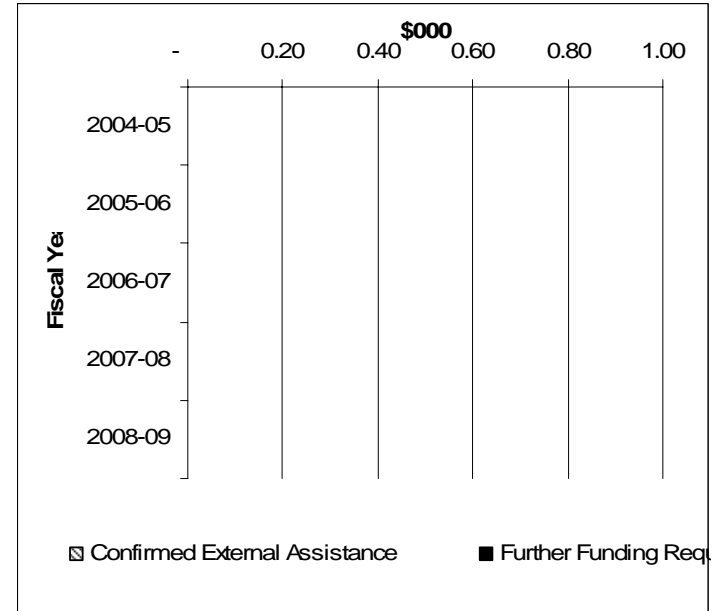


Chart 6.19
Combined Sources Recurrent 2004-05 to 2008-09

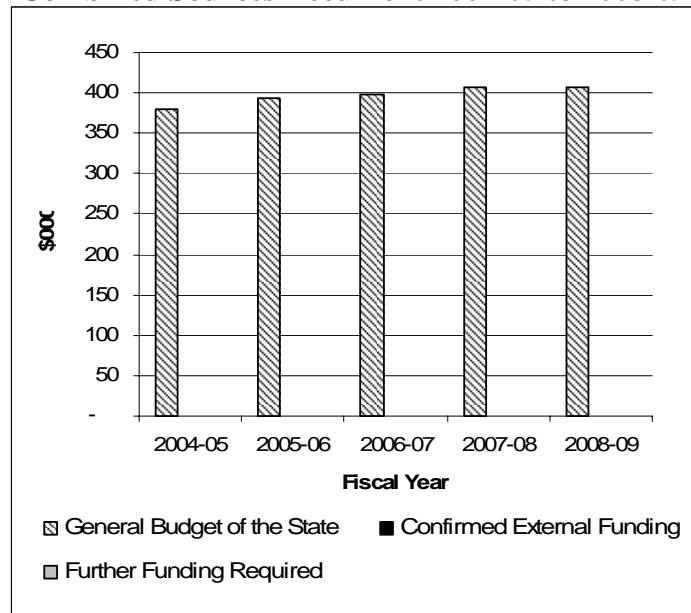
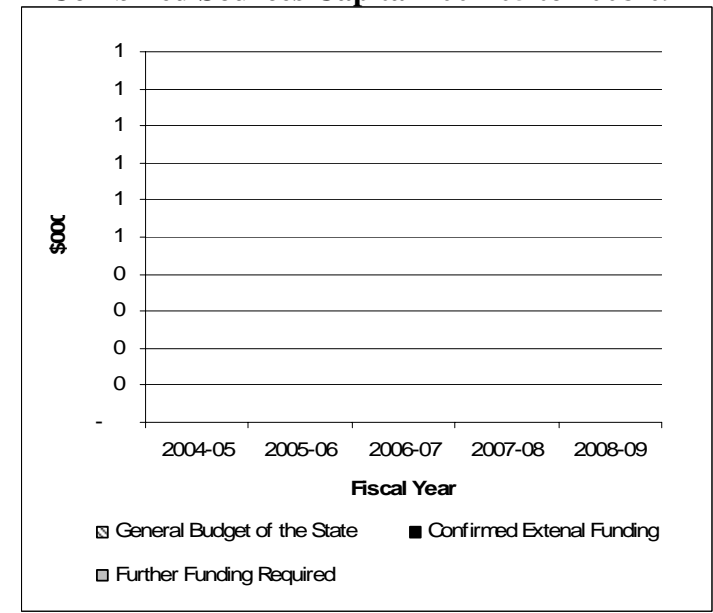


Chart 6.20
Combined Sources Capital 2004-05 to 2008-09



Ministry of State Administration

Table 6.13
Funding and Staffing Overview Ministry of State Administration (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	776	834	844	855	865	3,398
Goods and Services	1,611	2,111	2,017	2,058	2,128	8,314
Minor Capital	34	175	110	69	47	401
Total Recurrent Expenses	2,421	3,120	2,971	2,982	3,040	12,113
<i>Growth on Previous Year</i>		28.9%	-4.8%	0.4%	1.9%	-2.6%
Total Capital and Development	300	935	626	646	656	2,863
<i>Growth on Previous Year</i>		211.7%	-33.0%	3.2%	1.5%	-29.8%
Total General Budget of the State	2,721	4,055	3,597	3,628	3,696	14,976
<i>Growth on Previous Year</i>		49.0%	-11.3%	0.9%	1.9%	-8.9%
Confirmed Funds From Other Sources						
Recurrent Expenses	12,787	3,830	225	175	85	4,313
Capital Expenses	2,337	374	20	20	9	422
Total Confirmed Funds from Other Sources	15,124	4,203	244	194	94	4,735
<i>Growth on Previous Year</i>		-72.2%	-94.2%	-20.5%	-51.5%	-97.8%
Combined Sources Budget						
Recurrent Expenses	15,408	4,503	345	295	94	16,426
<i>Growth on Previous Year</i>		-70.8%	-92.3%	-14.5%	-68.2%	-97.9%
Capital Expenses	2,637	1,309	646	666	665	3,285
<i>Growth on Previous Year</i>		-50.4%	-50.7%	3.1%	0.0%	-49.1%
Total Combined Sources Budget	18,045	5,811	991	961	759	19,711
<i>Growth on Previous Year</i>		-67.8%	-82.9%	-3.0%	-21.0%	-86.9%
Further Funding Required						
Recurrent Expenses	1,102	3,856	10,271	6,056	4,431	24,613
Capital Expenses	315	2,325	3,915	3,375	2,500	12,115
Total	1,417	6,181	14,186	9,431	6,931	36,728

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	17	46	177	65	112	23	1	441
Temporary	0	0	0	0	1	0	0	1
Total	17	46	177	65	113	23	1	442

THE ROLE OF THE MINISTRY OF STATE ADMINISTRATION AND SIPS

The Ministry's roles are to develop a political and legal framework for a professional public service; to support the development of effective local administration; to provide a national archive and printing service; and technical electoral administration to support a transparent democracy. The activities of the Ministry are contained in the SIPs on "Public Sector Management" and "Local Government".

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

Funding for the *Ministry of State Administration* in 2005-06 will increase by approximately 2%, compared with the 2004-05 Supplementary Budget. Compared with the initial Budget for 2004-05, funding will be around 50% higher, mostly associated with an increase in Capital and Development project funding, from \$300,000 to \$937,000, an increase of \$166,000 in Minor Capital (for funding office equipment, furniture and fittings and communications equipment, and higher spending across a range of Goods and Services.

The majority of funding within the Ministry (approximately 43%) is provided for the *National Directorate of Territorial Administration*. Capital and development funding of \$300,000 has been provided in 2005-2006 for a programme to rehabilitate the Bobonaro district and 11 sub-district administrative offices.

The Supplementary Budget for 2004-05 provided \$253,000 to the Ministry for vehicle maintenance and fuel, and for wages for polling staff for the Suco elections.

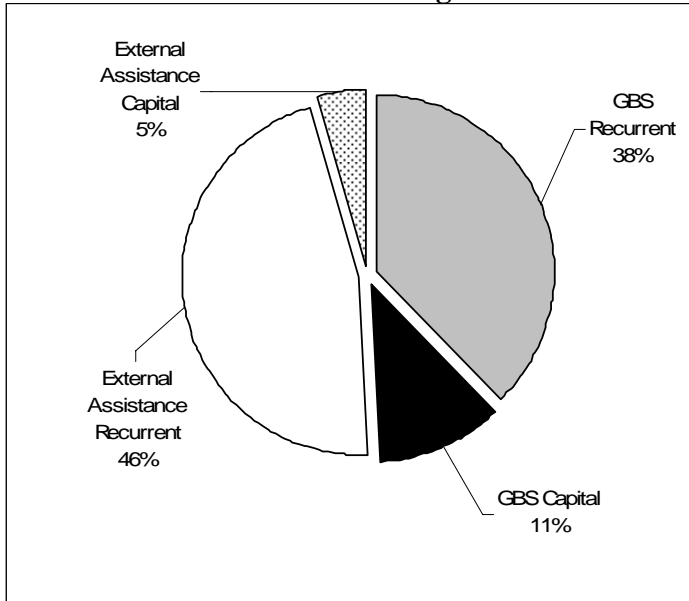
To ensure the efficient and effective implementation of the upcoming Suco Chief elections, \$40,000 has been allocated in 2005-2006. It is expected that additional Bilateral / Multilateral support will be necessary to ensure the successful completion of this activity.

To complete the construction of its administrative office, the Ministry is to be provided with \$45,000. In addition, \$400,000 will be provided for *National Printing Office* to support a project to rehabilitate an administrative office and repair and relocate its printing press.

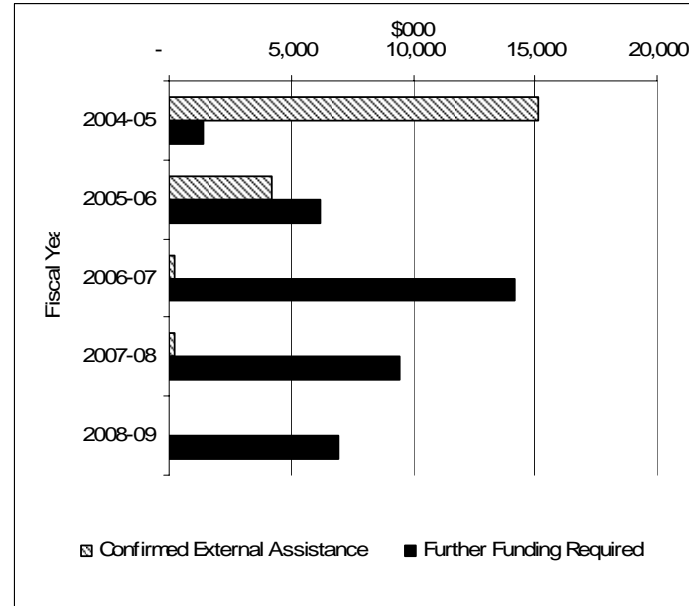
The Ministry has created a new program - *Local Development Program (LDP)*. This program is a three years pilot cooperation between the Government of RTTL and UNDP. The budget provides for Capital and Development funding of \$192,000 and Goods and Services funding of \$29,000. This project will commence with rehabilitation works in the Bobonaro District in 2005-2006 and the Covalima and Viqueque Districts in 2006-2007.

Another new program is the *Personnel Management Information System*. In 2005-2006 the Government will provide \$275,000 for the implementation of a computerized Personal Management Information System (PMIS) by the National Directorate of Public Service. . The total cost of the project is estimated at \$550,000. An amount of \$275,000 is being provided in the Budget, funding of \$141,000 has already been secured from donors and the remaining cost of \$134,000 will also be sought from donors.

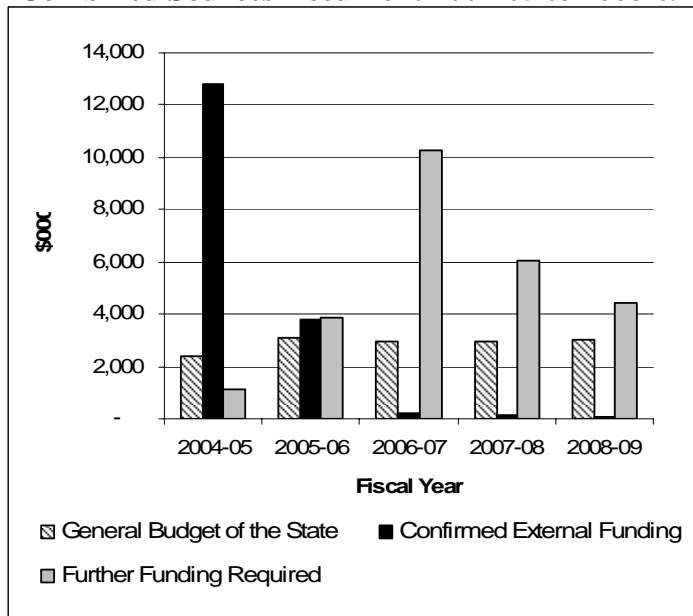
**Chart 6.21
Combined Sources Budget 2005-06**



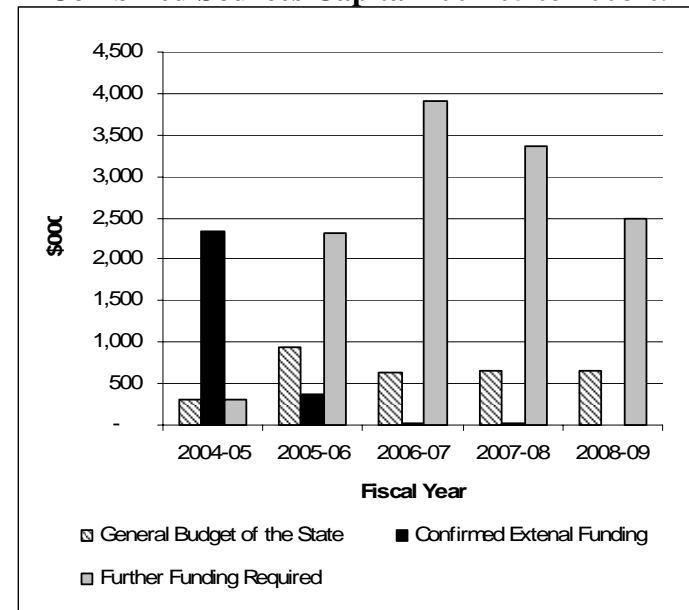
**Chart 6.22
External Assistance 2004-05 to 2008-09**



**Chart 6.23
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.24
Combined Sources Capital 2004-05 to 2008-09**



Ministry of the Interior (Excluding the PNTL)

Table 6.14
Funding and Staffing Overview Ministry of Interior (Excluding the PNTL) (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	722	740	948	1,037	1,078	3,803
Goods and Services	560	607	661	690	723	2,681
Minor Capital	5	19	30	41	44	134
Total Recurrent Expenses	1,287	1,366	1,639	1,768	1,845	6,618
<i>Growth on Previous Year</i>		6.1%	20.0%	7.9%	4.4%	35.1%
Total Capital and Development	40	80	20	20	20	140
<i>Growth on Previous Year</i>		100.0%	-75.0%	0.0%	0.0%	-75.0%
Total General Budget of the State	1,327	1,446	1,659	1,788	1,865	6,758
<i>Growth on Previous Year</i>		9.0%	14.7%	7.8%	4.3%	29.0%
Confirmed Funds From Other Sources						
Recurrent Expenses	-	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	-	-	-	-	-	-
<i>Growth on Previous Year</i>	0	na	na	na	na	na
Combined Sources Budget						
Recurrent Expenses	1,287	1,366	1,639	1,768	1,845	6,618
<i>Growth on Previous Year</i>		6.1%	20.0%	7.9%	4.4%	35.1%
Capital Expenses	40	80	20	20	20	140
<i>Growth on Previous Year</i>		100.0%	-75.0%	0.0%	0.0%	-75.0%
Total Combined Sources Budget	1,327	1,446	1,659	1,788	1,865	6,758
<i>Growth on Previous Year</i>		9.0%	14.7%	7.8%	4.3%	29.0%
Further Funding Required						
Recurrent Expenses	500	600	500	300	50	1,450
Capital Expenses	-	-	-	-	-	-
Total	500	600	500	300	50	1,450

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	440	113	38	14	9	3	1	618
Temporary	0	0	0	0	0	0	0	0
Total	440	113	38	14	9	3	1	618

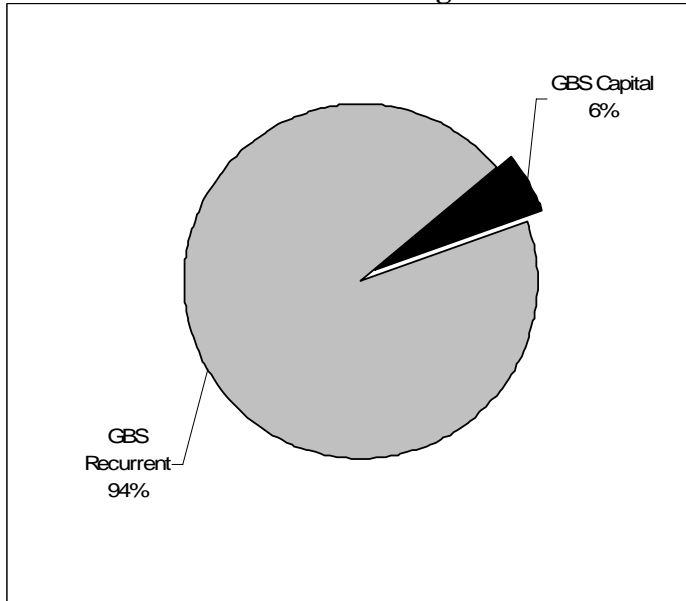
THE ROLE OF THE MINISTRY OF THE INTERIOR AND INTEGRATION WITH THE SIPS

The Ministry's roles are to protect people, property, security of government buildings, provision of fire brigade services, and support during natural disasters. The activities of the Ministry are contained in the SIP on "Security, Peace building and Reconciliation".

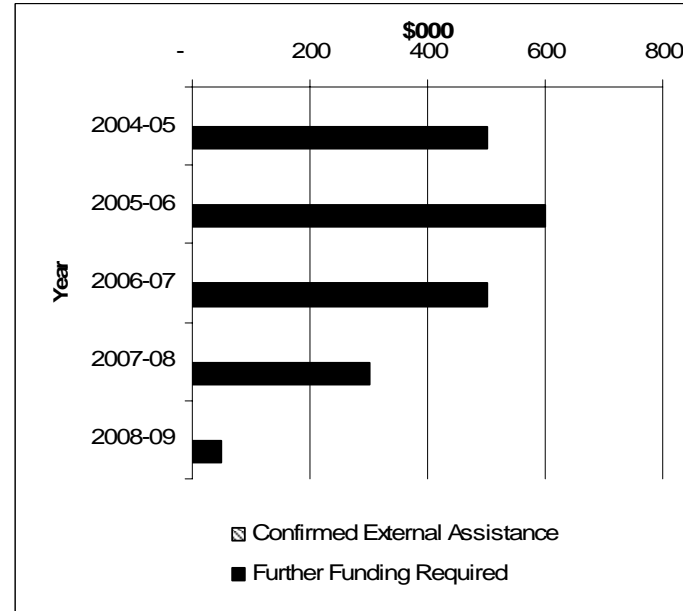
GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

The Ministry has restructured a number of its Directorates to strengthen administration in those areas. These include, expansion of the Inspectorate Directorate, merger of the Emergency and National Disaster Directorates, and Civil Protection, and upgrading the Building Accreditation Division to a Directorate. Two buildings will be rehabilitated, these are the Dili Civil Security building, and the Civil Protection building (Bombeiros).

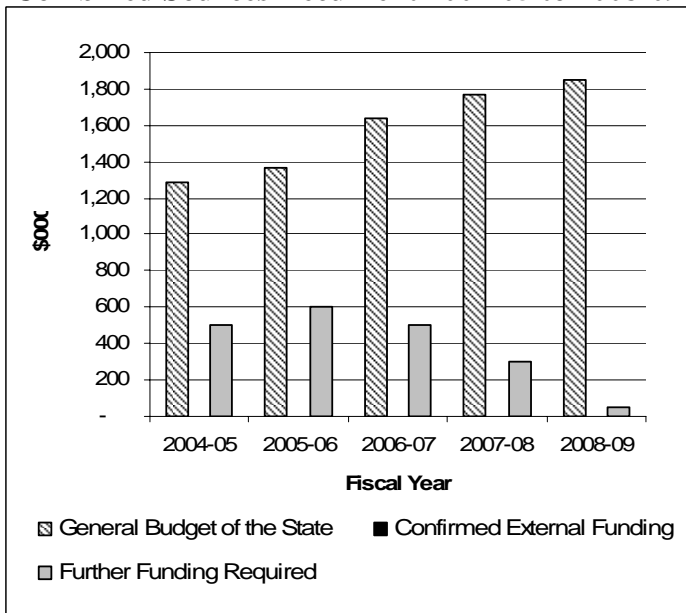
**Chart 6.25
Combined Sources Budget 2005-06**



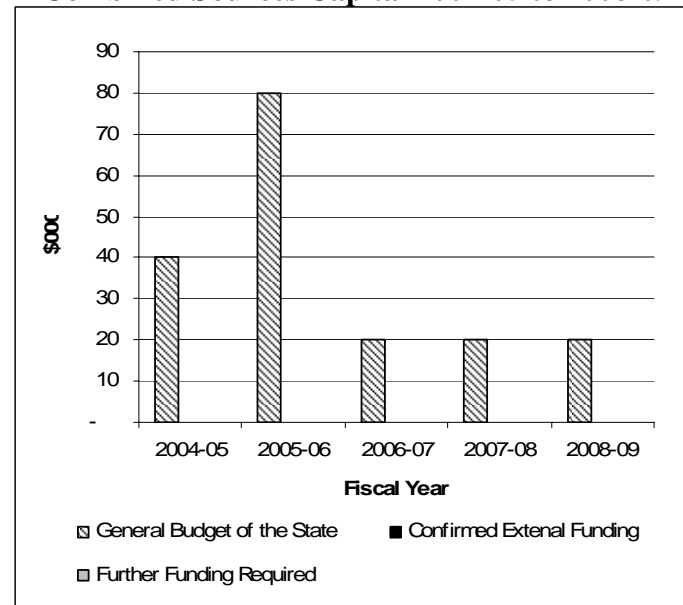
**Chart 6.26
External Assistance 2004-05 to 2008-09**



**Chart 6.27
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.28
Combined Sources Capital 2004-05 to 2008-09**



National Police of Timor-Leste

Table 6.17
Funding and Staffing Overview of National Police of Timor-Leste (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	4,154	4,242	4,328	4,401	4,478	17,449
Goods and Services	3,524	3,580	4,012	4,609	4,728	16,929
Minor Capital	311	615	330	222	205	1,372
Total Recurrent Expenses	7,989	8,437	8,670	9,232	9,411	35,750
<i>Growth on Previous Year</i>		5.6%	2.8%	6.5%	1.9%	11.5%
Total Capital and Development	-	181	305	15	-	501
<i>Growth on Previous Year</i>			68.5%	-95.1%	-100.0%	-100.0%
Total General Budget of the State	7,989	8,618	8,975	9,247	9,411	36,251
<i>Growth on Previous Year</i>		7.9%	4.1%	3.0%	1.8%	9.2%
Confirmed Funds From Other Sources						
Recurrent Expenses	5714	5769.11	5308	4608	4608	20,293
Capital Expenses	0	0	0	0	0	-
Total Confirmed Funds from Other Sources	5714	5769.11	5308	4608	4608	20,293
<i>Growth on Previous Year</i>		1.0%	-8.0%	-13.2%	0.0%	-20.1%
Combined Sources Budget						
Recurrent Expenses	13,703	14,206	13,978	13,840	14,019	56,043
<i>Growth on Previous Year</i>		3.7%	-1.6%	-1.0%	1.3%	-1.3%
Capital Expenses	-	181	305	15	-	501
<i>Growth on Previous Year</i>			68.5%	-95.1%	-100.0%	-100.0%
Total Combined Sources Budget	13,703	14,387	14,283	13,855	14,019	56,544
<i>Growth on Previous Year</i>		5.0%	-0.7%	-3.0%	1.2%	-2.6%
Further Funding Required						
Recurrent Expenses	-	-	-	-	-	-
Capital Expenses	500	3,250	2,750	500	-	6,500
Total	500	3,250	2,750	500	-	6,500

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	0	2,793	141	270	43	3	1	3,251
Temporary	0	0	0	0	0	0	0	0
Total	0	2,793	141	270	43	3	1	3,251

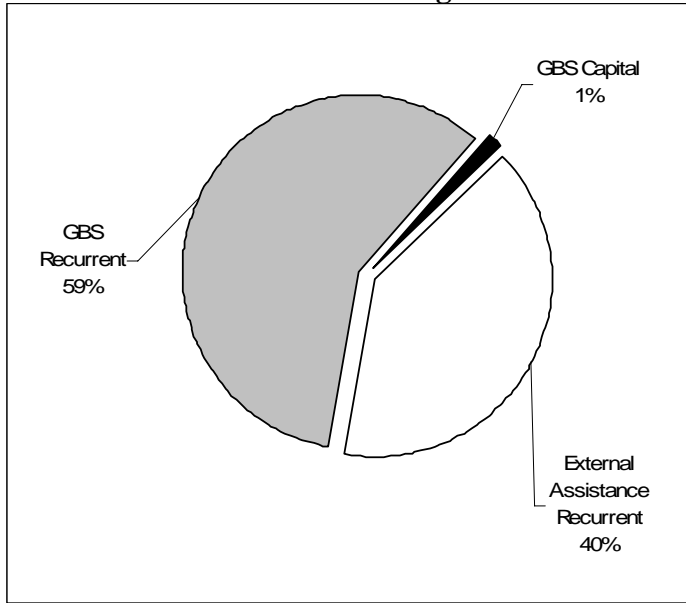
THE ROLE NATIONAL POLICE OF TIMOR-LESTE AND INTEGRATION WITH THE SIPS

The role of the National Police of Timor-Leste is to maintain the internal security of Timor-Leste, covering the protection of lives and property, crime prevention, detention of offenders, and preserving public order in the community. The PNTL also operates the Immigration service. The activities of the National Police of Timor Leste are contained in the SIP on "Security, Peace building and Reconciliation".

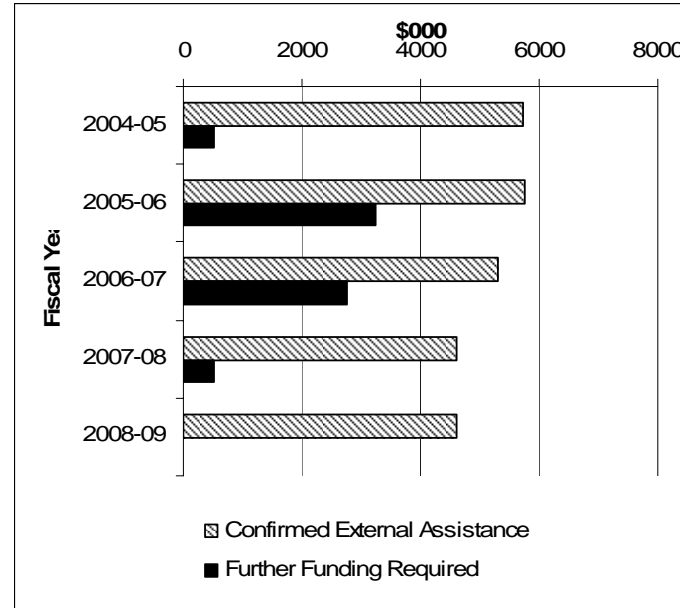
GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

The vehicle fleet is being upgraded by acquiring new patrol vehicles. A number of buildings are being rehabilitated in some districts (Dili, Ermera, Aileu and Manatuto), as well as the shooting range at the Police Academy. Additional funds are also being provided to improve meal allowances for the National Security Directorate. All training funds are being transferred from the Directorates to the Police Academy to improve the efficiency of police training.

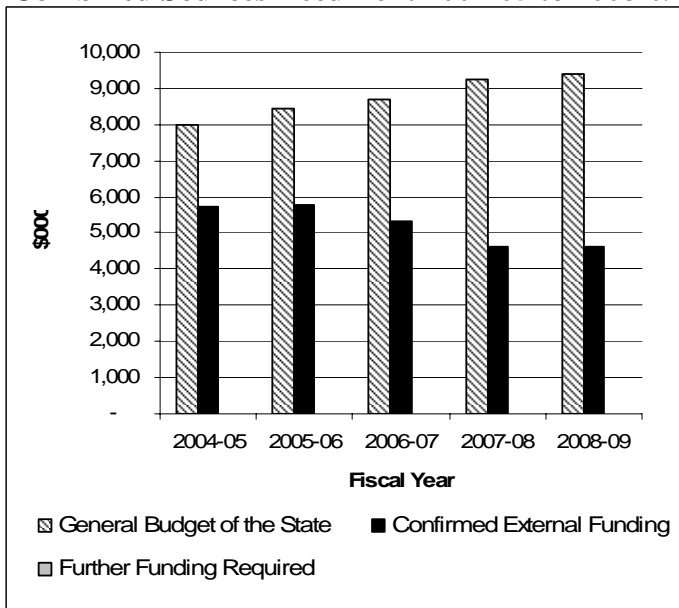
**Chart 6.29
Combined Sources Budget 2005-06**



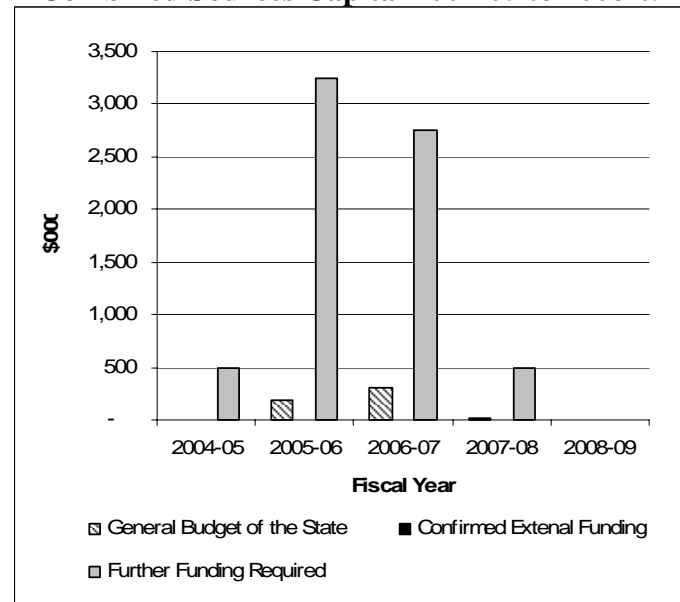
**Chart 6.30
External Assistance 2004-05 to 2008-09**



**Chart 6.31
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.32
Combined Sources Capital 2004-05 to 2008-09**



Ministry of Development

Table 6.18
Funding and Staffing Overview Ministry of Development (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	142	187	202	206	211	674
Goods and Services	236	292	348	355	364	1,149
Minor Capital	32	26	58	58	59	180
Total Recurrent Expenses	253	404	503	519	577	2,003
<i>Growth on Previous Year</i>		59.7%	24.5%	3.2%	11.2%	42.8%
Total Capital and Development	-	-	-	-	-	-
<i>Growth on Previous Year</i>	0	na	na	na	na	na
Total General Budget of the State	253	404	503	519	577	2,003
<i>Growth on Previous Year</i>		59.7%	24.5%	3.2%	11.2%	42.8%
Confirmed Funds From Other Sources						
Recurrent Expenses	-	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	-	-	-	-	-	-
<i>Growth on Previous Year</i>	0	na	na	na	na	na
Combined Sources Budget						
Recurrent Expenses	253	404	503	519	577	2,003
<i>Growth on Previous Year</i>		59.7%	24.5%	3.2%	11.2%	42.8%
Capital Expenses	-	-	-	-	-	-
<i>Growth on Previous Year</i>	0	na	na	na	na	na
Total Combined Sources Budget	253	404	503	519	577	2,003
<i>Growth on Previous Year</i>		59.7%	24.5%	3.2%	11.2%	42.8%
Further Funding Required						
Recurrent Expenses	3,395	5,509	4,722	3,574	2,010	15,815
Capital Expenses	380	791	728	726	990	3,235
Total	3,775	6,300	5,450	4,300	3,000	19,050

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	0	0	16	29	6	7	1	59
Temporary	1	3	3	1	1	0	0	9
Total	1	3	19	30	7	7		67

THE ROLE OF THE MINISTRY OF DEVELOPMENT AND INTEGRATION WITH THE SIPS

The role of the Ministry of Development is to further the economic development of Timor Leste through the fostering of private investment both industrial and commercial; and the development of entrepreneurial skills within the country. The activities of the Ministry of Development are contained within "Private Sector Development" SIPS.

Given the importance of promoting private sector led growth in employment and incomes, the Government attaches great importance to more aggressive programs for private sector development in the coming four years and looks to development partners for additional support in this important area.

The various agencies of government responsible for private sector development have established a clear set of priorities for the proposed program. This level of new commitment for private sector development is significantly higher than in any previous year reflecting the importance the Government attaches to accelerating the development of the business sector and an aggressive program aimed at creating new job opportunities throughout the country.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

Major administrative reforms to strengthen this newly created Ministry will be implemented in 2005-06.

Ministry of Justice

Table 6.19
Funding and Staffing Overview Ministry of Justice (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	876	905	920	934	944	3,703
Goods and Services	891	3,146	1,283	1,298	1,321	7,048
Minor Capital	15	125	28	24	26	203
Total Recurrent Expenses	1,782	4,176	2,231	2,256	2,291	10,954
<i>Growth on Previous Year</i>		134.3%	-46.6%	1.1%	1.6%	-45.1%
Total Capital and Development	-	1,465	-	-	-	1,465
<i>Growth on Previous Year</i>	0	na	-100.0%	na	na	-100.0%
Total General Budget of the State	1,782	5,641	2,231	2,256	2,291	14,201
<i>Growth on Previous Year</i>		216.6%	%	1.1%	1.6%	-59.4%
Confirmed Funds From Other Sources						
Recurrent Expenses	996	1,498	1,198	973	-	3,669
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sour	996	1,498	1,198	973	-	3,669
<i>Growth on Previous Year</i>		50.4%	-20.1%	-18.7%	-100.0%	-100.0%
Combined Sources Budget						
Recurrent Expenses	2,778	5,674	3,429	3,229	2,291	14,623
<i>Growth on Previous Year</i>		104.3%	-39.6%	-5.8%	-29.0%	-59.6%
Capital Expenses	-	1,465	-	-	-	1,465
<i>Growth on Previous Year</i>	0	#DIV/0!	-100.0%	#DIV/0!	#DIV/0!	-100.0%
Total Combined Sources Budget	2,778	7,139	3,429	3,229	2,291	16,088
<i>Growth on Previous Year</i>		157.0%	-52.0%	-5.8%	-29.0%	-67.9%
Further Funding Required						
Recurrent Expenses	1,935	2,945	2,050	1,572	503	7,070
Capital Expenses	175	795	425	180	45	1,445
Total	2,110	3,740	2,475	1,752	547	8,515

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	23	224	121	67	43	27	1	506
Temporary	0	0	0	0	0	17	0	17
Total	23	224	121	67	43	44	1	523

THE ROLE OF THE MINISTRY OF JUSTICE AND INTEGRATION WITH THE SIPS

The role of the Ministry of Justice is to provide support to the justice system through development and assessment of justice; provision of public defenders and public prosecutors; provision of a civil registry and notary services; providing land titles and national cartography services; promoting awareness of the rights of Timorese citizens; and running prisons and social reintegration.

Activities of the Ministry of Justice are contained within the "Rights, Equality and Justice" SIP. Within the SIP the Government has clearly determined its primary goal as the creation of a judicial system which is able to guarantee the rule of law, respect the rights of citizens as well as contributing to an atmosphere of stability that facilitates investment and future development in Timor-Leste. Three core strategies are being implemented in order to achieve these goals. The first concerns the strengthening of the capacity of the formal justice system. The second is the promotion of gender equality and equal rights and duties ensuring non-discrimination between men and women. The third is the strengthening of the institutional capacity of the bodies responsible for the good administration of justice and for security.

Approximately \$14 million, close to half of the \$30.5 million which has been spent on rights, equality, and justice programs were allocated to legal and judicial programs over the five-year period ending 2003/04, with development partners accounting for about 70% of the total. A crucial point to note is that within the area of legal and judicial services, less than \$1.0 m is clearly identifiable as training for national staff. Donor support for prisons programs was minimal with most of the funding coming from the budget. Given importance of

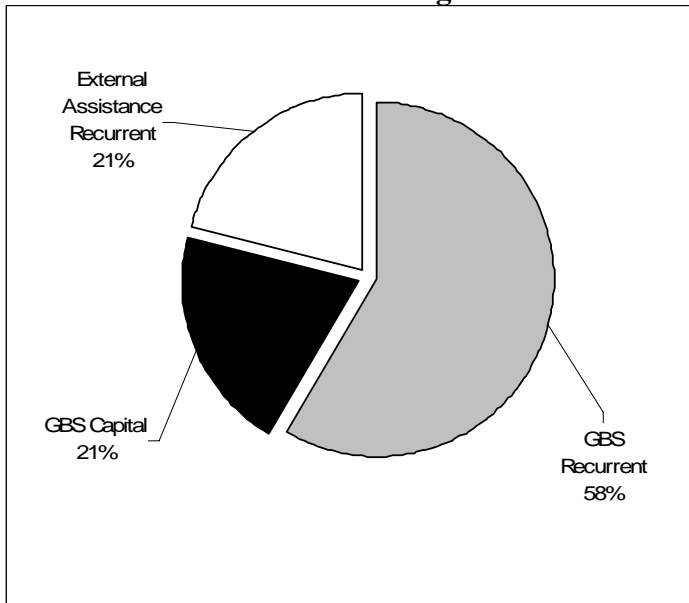
having a fair, stable and efficient judicial system, the Government accords a high priority to judicial programs in 2004-05 with fundin requests of almost \$15m.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

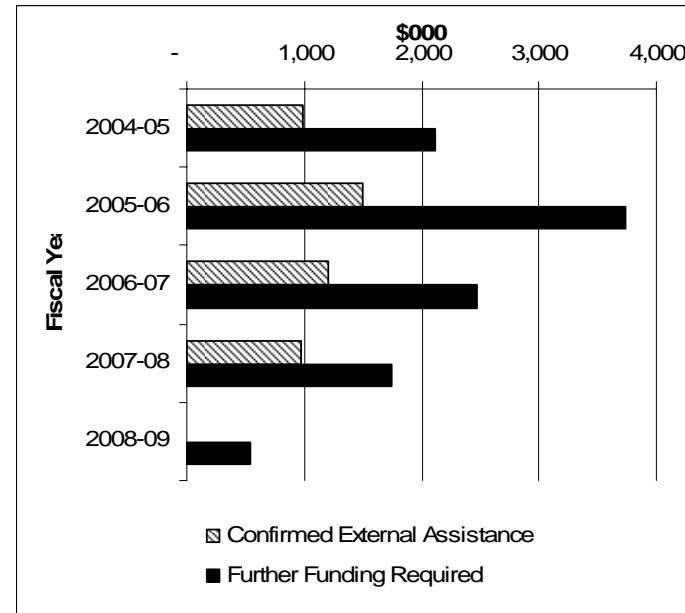
Additional budget funding has been provided to the Ministry of Justice to fund:

- the creation and distribution of identity cards to Timorese citizens, replacing the current ones which were issued by the United Nations;
- rehabilitation of the Office of the Public Notary Office and Civil Registration;
- completion of the construction of the building housing the Land and Property Division;
- intensive training of guards in jails through training courses run in Timor-Leste;
- further training of judges and lawyers; and
- wide promotion of citizens rights to all people in the districts.

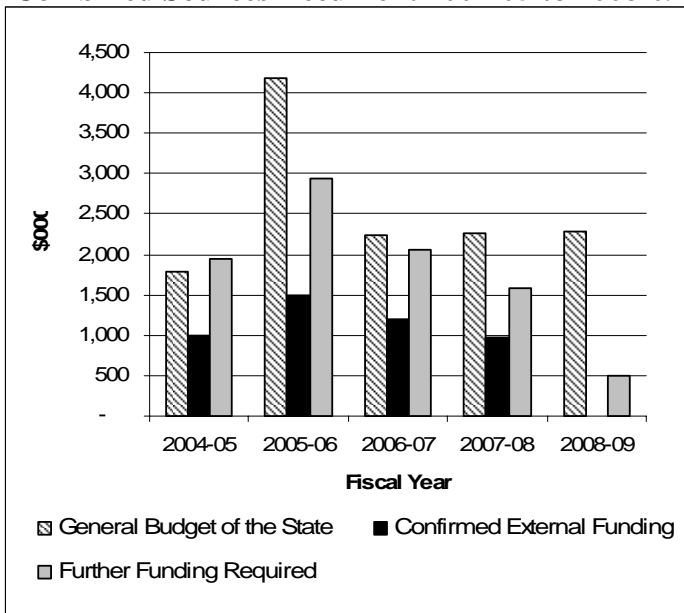
**Chart 6.37
Combined Sources Budget 2005-06**



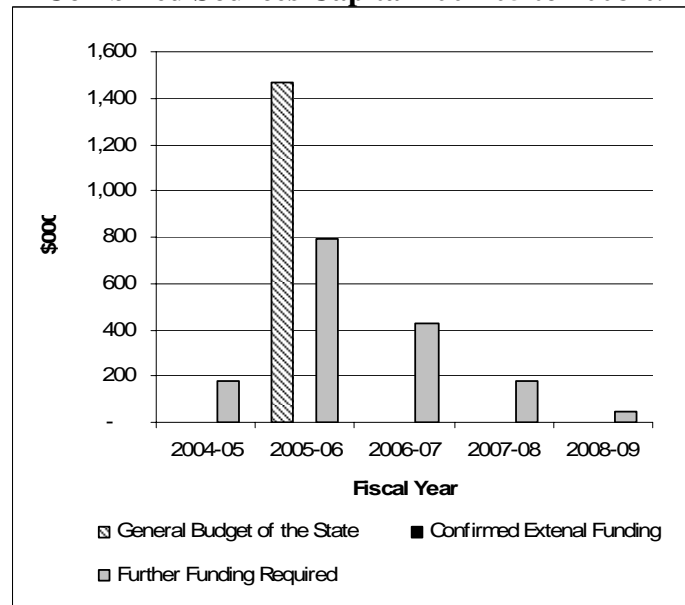
**Chart 6.38
External Assistance 2004-05 to 2008-09**



**Chart 6.39
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.40
Combined Sources Capital 2004-05 to 2008-09**



Ministry of Agriculture, Forests and Fisheries

Table 6.20
Funding and Staffing Overview Ministry of Agriculture, Forests and Fisheries(\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	519	691	804	852	896	3,243
Goods and Services	918	2,054	2,610	2,837	3,081	10,582
Minor Capital	29	1,135	396	180	258	1,969
Total Recurrent Expenses	1,466	3,880	3,810	3,869	4,235	15,794
<i>Growth on Previous Year</i>		165%	-2%	2%	9%	9.1%
Total Capital and Development	138	570	820	805	910	3,105
<i>Growth on Previous Year</i>		313%	44%	-2%	13%	59.6%
Total General Budget of the State	1,604	4,450	4,630	4,674	5,145	18,899
<i>Growth on Previous Year</i>		177%	4%	1%	10%	15.6%
Confirmed Funds From Other Sources						
Recurrent Expenses	6,248	3,357	1,138	68	-	4,563
Capital Expenses	2,023	1,860	835	12	-	2,707
Total Confirmed Funds from Other Sources	8,271	5,218	1,973	80	-	7,270
<i>Growth on Previous Year</i>		-37%	-62%	-96%	-100%	-100.0%
Combined Sources Budget						
Recurrent Expenses	7,714	7,237	4,948	3,937	4,235	20,357
<i>Growth on Previous Year</i>		-6%	-32%	-20%	8%	-41.5%
Capital Expenses	2,161	2,430	1,655	817	910	5,812
<i>Growth on Previous Year</i>		12%	-32%	-51%	11%	-62.6%
Total Combined Sources Budget	9,875	9,668	6,603	4,754	5,145	26,169
<i>Growth on Previous Year</i>		-2%	-32%	-28%	8%	-46.8%
Further Funding Required						
Recurrent Expenses	-	3,060	5,797	8,479	6,753	24,089
Capital Expenses	-	540	1,023	1,496	1,192	4,251
Total	-	3,600	6,820	9,975	7,945	28,340

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	5	32	75	123	60	17	4	316
Temporary	1	7	6	9	3	0	0	26
Total	6	39	81	132	63	17	4	342

The role of the Ministry for Agriculture, Forests and Fisheries is to attain food security and generate economic growth through improved production of food and commercial crops and livestock and fisheries. This will be achieved through good planning and research; improved primary production techniques; training primary producers; reducing disease in animals and crops; rehabilitating community irrigation schemes; providing primary producers with better access to markets; and providing quarantine services. The activities of the Ministry of Agriculture, Forests and Fisheries are contained within the "Agriculture, Forests and Fisheries" SIP.

The programmes within the "Agriculture, Forests and Fisheries" SIP are designed to support the implementation of Ministry's new policy and strategic framework. The agriculture and livestock sub-sector places particular emphasis on improving the livelihood of rural communities in upland and dryland areas, the integration of land and forest management in a watershed management approach, and the gradual expansion and better coordination of service delivery. The fisheries and forestry sub sector establishes the basic building blocks for sustainable resource management and will have as an immediate priority, for example, the development of resource inventories.

In the period from 1999/00 to 2003/04, a total of \$72.5 million was spent by donors and Government on programs within the sector, with the agriculture and livestock sector accounting for \$66 million of this total. Donors funded 92% of the total program. The proposed program for the five-year period ending FY2008/09 amounts to \$67 million, \$42 million of which would go to the agriculture and livestock sub-sector. Under the proposed program annual expenditures in agriculture, forestry and fisheries would decrease from about \$19

million in FY 2003/04 to about \$5.5 million from FY2007/08. This decrease can be attributed mainly to the end of a major donor project in the coffee industry and scaling-down of investment in irrigation. Expenditures in the forestry and fisheries sectors would double in the same period.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

The Ministry has created a new division to manage the agricultural schools which are aimed specifically to educate senior high school students who intend to seek employment in agriculture. Responsibility for these schools has been transferred from the Ministry of Education and Culture.

In accordance with the Ministry's Organic Law from next year the work of the Ministry will be decentralised into three regions to better serve districts. Newly created regional offices will work closely with people in rural areas, staff from various Directorates will relocate to the Regions, thus giving more focussed management to activities performed in the districts, the regional offices are:

- Region 1 will serve Baucau, Manatuto, Lospalos and Viqueque;
- Region 2 will serve Same, Ainaro, Aileu and Suai; and
- Region 3 will serve Maliana, Liquica and Ermera.

A new fisheries licensing system will be established to regulate the commercial exploitation of Timor Leste's fisheries for the benefit of the people. When this system is implemented, significant additional income will be generated.

The Ministry will expand its Research capabilities with the building of a testing laboratory, and develop new maize cultivars that are well adopted in the environmental conditions of Timor -Leste.

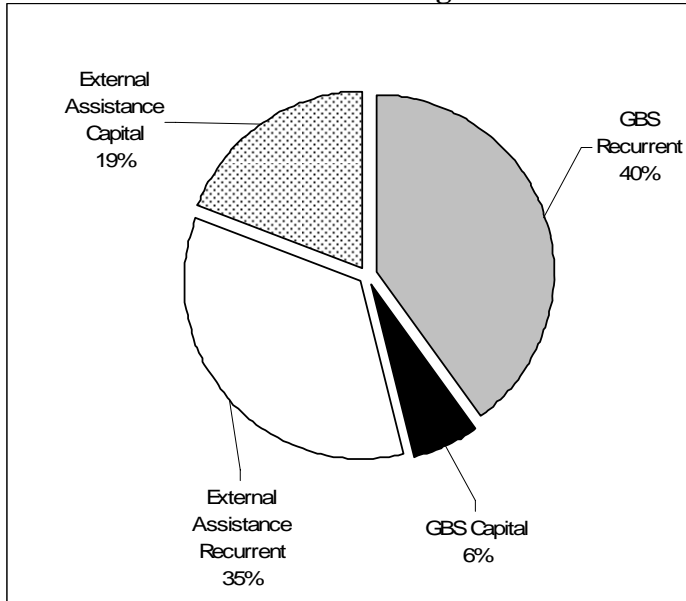
The Food Crops Directorate will be expanded to attain better food security for those who live in rural and remote areas.

The Ministry will engage forestry guardians to implement forestry policy and conserve natural resources for long term national benefits.

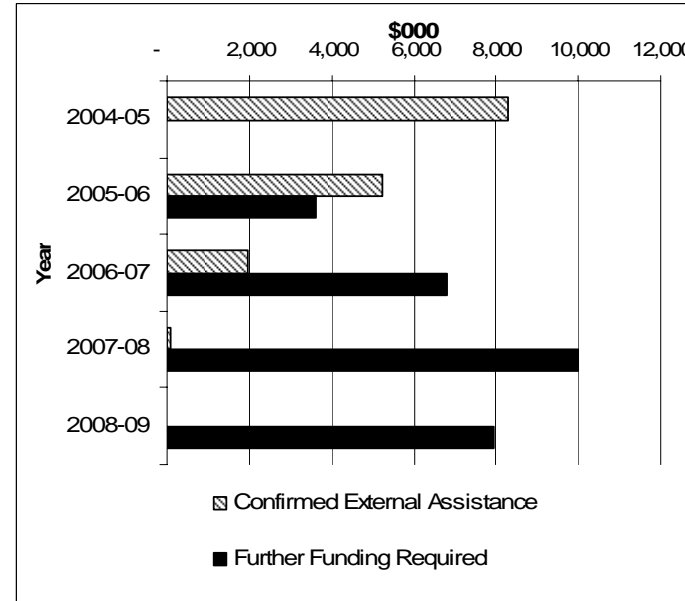
New Quarantine Legislation will be implemented to protect the country's natural fauna and flora and generate income from licensing.

The Ministry will increase the ongoing support for the rehabilitation and maintenance of the national irrigation scheme.

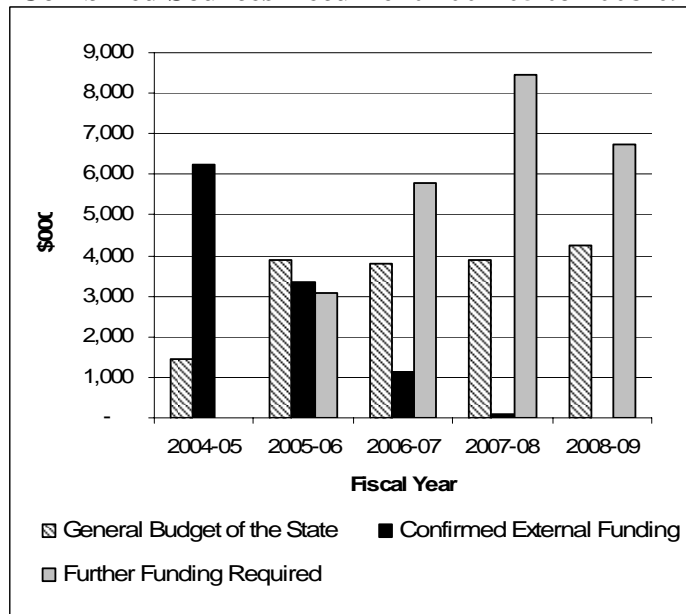
**Chart 6.41
Combined Sources Budget 2005-06**



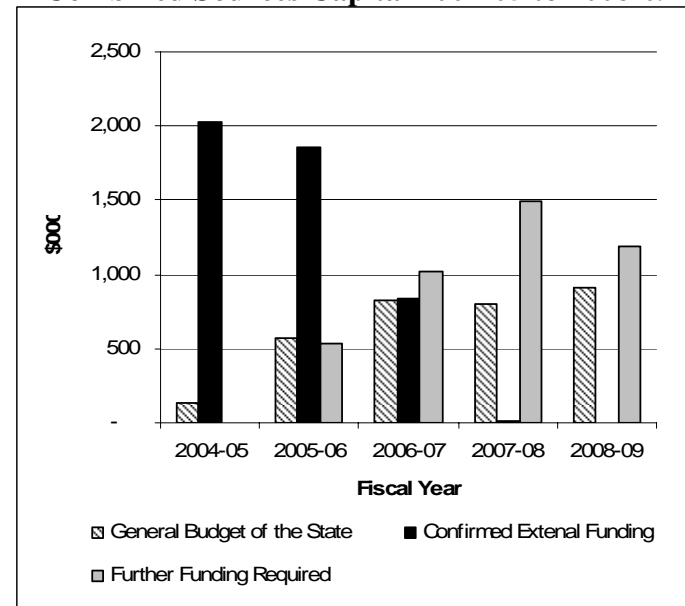
**Chart 6.42
External Assistance 2004-05 to 2008-09**



**Chart 6.43
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.44
Combined Sources Capital 2004-05 to 2008-09**



Ministry of Education and Culture

Table 6.21
Funding and Staffing Overview Ministry of Education and Culture (\$'000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	11,767	11,921	13,217	13,832	14,591	53,561
Goods and Services	3,378	4,225	5,048	5,403	5,918	20,594
Minor Capital	211	451	1,317	1,260	1,827	4,855
Total Recurrent Expenses	15,356	16,597	19,582	20,495	22,336	79,010
<i>Growth on Previous Year</i>		8.1%	18.0%	4.7%	9.0%	34.6%
Total Capital and Development	943	1,362	2,293	2,778	1,902	8,335
<i>Growth on Previous Year</i>		44.4%	68.4%	21.2%	-31.5%	39.6%
Total General Budget of the State	16,299	17,959	21,875	23,273	24,238	87,345
<i>Growth on Previous Year</i>		10.2%	21.8%	6.4%	4.1%	35.0%
Confirmed Funds From Other Sources						
Recurrent Expenses	12,995	4,118	934	666	-	5,718
Capital Expenses	6,400	1,135	-	-	-	1,135
Total Confirmed Funds from Other Sources	19,395	5,254	934	666	-	6,853
<i>Growth on Previous Year</i>		-72.9%	-82.2%	-28.7%	-100.0%	-100.0%
Combined Sources Budget						
Recurrent Expenses	28,351	20,715	20,516	21,161	22,336	84,728
<i>Growth on Previous Year</i>		-26.9%	-1.0%	3.1%	5.6%	7.8%
Capital Expenses	7,343	2,497	2,293	2,778	1,902	9,470
<i>Growth on Previous Year</i>		-66.0%	-8.2%	21.2%	-31.5%	-23.8%
Total Combined Sources Budget	35,694	23,213	22,809	23,939	24,238	94,198
<i>Growth on Previous Year</i>		-35.0%	-1.7%	5.0%	1.3%	4.4%
Further Funding Required						
Recurrent Expenses	3,180	6,232	8,160	4,640	4,300	23,332
Capital Expenses	-	9,118	13,342	9,804	1,400	33,664
Total	3,180	15,350	21,502	14,444	5,700	56,996

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	16	29	4509	2221	36	21	2	6834
Temporary	0	2	64	38	0	0	0	104
Total	16	31	4573	2259	36	21		6936

THE ROLE OF THE MINISTRY OF EDUCATION AND CULTURE AND INTEGRATION WITH SIPS

The role of the Ministry of Education and Culture is to provide access to quality education from early childhood to senior secondary through good teaching materials, well trained teachers, adequate equipment and school buildings; to develop a framework for providing quality tertiary education; to increase productivity and living standards through non-formal education; and to uphold the national identity of Timor-Leste's arts and culture. The activities of the Ministry of Education and Culture are contained within the "Education" SIP.

The Ministry of Education and Culture has formulated and adopted an Education Policy Framework (EPF) for the medium term, which lays down a vision and goals, objectives, and priorities in both general and specific areas of education. Taking the EPF as the overall framework, the objectives for the medium-term are as follows:

- Establish an appropriate policy, legal and regulatory framework for the education sector.
- Promote universal quality primary education with emphasis on improved equity, access and coverage; improved student achievement and overall quality; and reduced drop-out and repetition.
- Hasten the effective re-introduction of Portuguese and Tetum in schools.
- Rationalize the provision of tertiary education.
- Build the capacity of the Ministry for educational management and service delivery.

The proposed program for the formal education sector calls for total expenditures of \$169 million during the five-year period ending 2008-09. This compares with the \$167 million spent on the formal education system during the previous five years. The highest priority is accorded to primary education which would require outlays of \$75 million and account for 44 percent of spending on formal education. A number of specific programs have been drawn up to improve the quality of primary education and to raise the net enrolment ratio for primary school from 75 percent to 81 percent by 2007. Spending on secondary education would amount to about \$60 million, with a large part of that going to junior secondary education in support of the Government's longer-term goal of providing all children in Timor-Leste with nine years of basic education.

In the case of vocational and adult education, the proposed program calls for expenditures of \$19 million during 2004-05 through 2008-09, compared with \$21 million during the past five years. It should be noted that this program refers only to those activities that are under the direct purview of the Ministry of Education and Culture and SSLS. It does not include specialized training programs for farmers, foresters and other groups that receive support from various other line ministries. During the five-year period ending 2003-04, these programs, which are described in other SIPs, amounted to about \$5 million.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

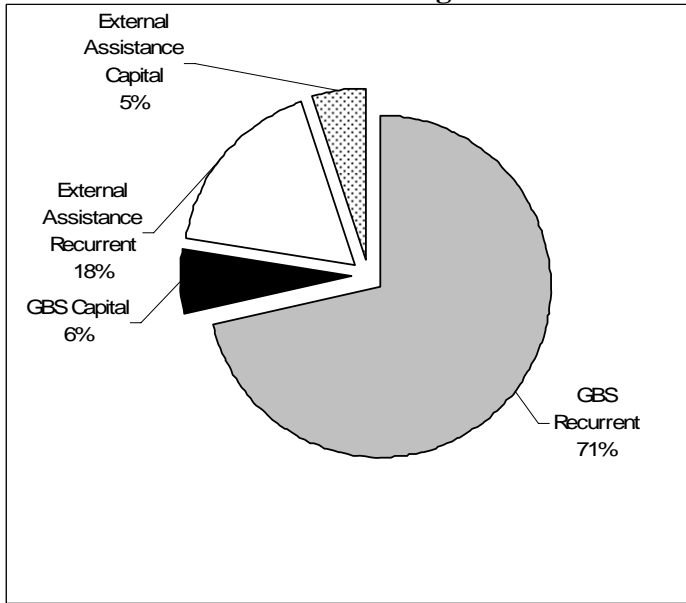
The Ministry will continue the rehabilitation of 18 of schools and the construction of 7 new schools in 2005-06 to ensure that the children of Timor Leste have suitable accommodation for learning. More funds are being allocated to maintenance and cleaning of school buildings. There will be an increased use of temporary staff to employ University lecturers. Increases in Minor Capital are being used to provide school furniture.

The Ministry will also build a new Rector's Office at the National University of Timor Leste.

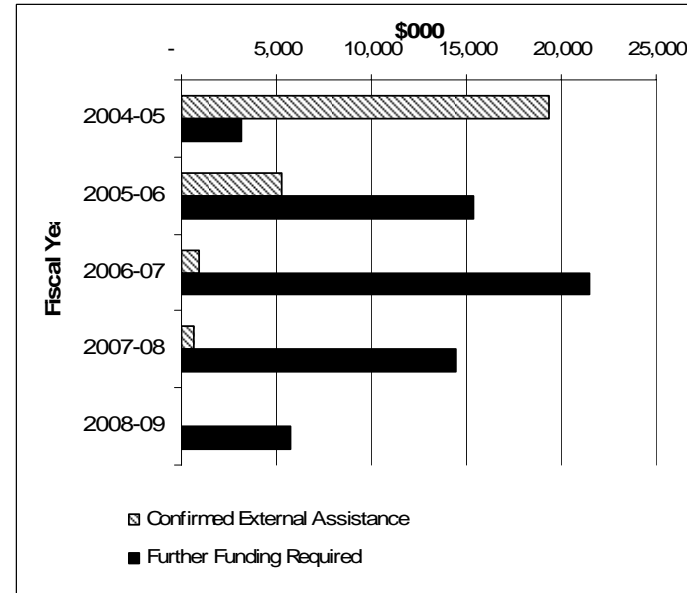
Agricultural colleges will be transferred to the Ministry of Agriculture, Forests and Fisheries.

The Ministry is working towards reviewing and improving the curriculum for all sectors of education.

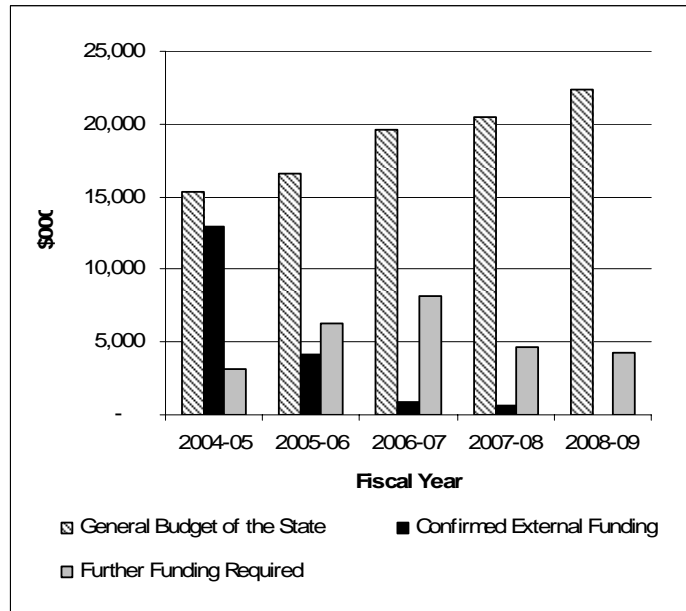
**Chart 6.45
Combined Sources Budget 2005-06**



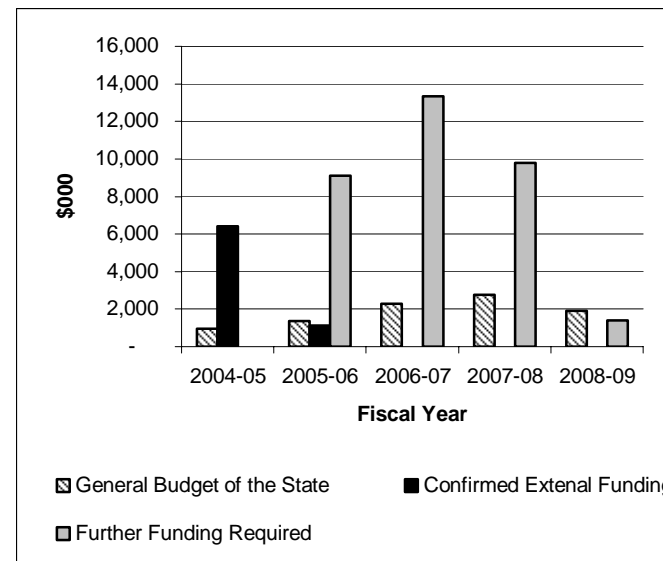
**Chart 6.46
External Assistance 2004-05 to 2008-09**



**Chart 6.47
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.48
Combined Sources Capital 2004-05 to 2008-09**



Ministry of Health

Table 6.22
Funding and Staffing Overview Ministry of Health 2004-05 to 2008-09 (\$'000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	3,012	3,025	3,114	3,196	3,335	12,670
Goods and Services	5,571	6,730	7,834	8,315	7,472	30,351
Minor Capital	483	550	663	780	748	2,741
Total Recurrent Expenses	9,066	10,305	11,611	12,291	11,555	45,762
<i>Growth on Previous Year</i>		13.7%	12.7%	5.9%	-6.0%	12.1%
Total Capital and Development	600	4,000	2,666	4,635	615	11,916
<i>Growth on Previous Year</i>		566.7%	-33.4%	73.9%	-86.7%	-84.6%
Total General Budget of the State	9,666	14,305	14,277	16,926	12,170	57,678
<i>Growth on Previous Year</i>		48.0%	-0.2%	18.6%	-28.1%	-14.9%
Confirmed Funds From Other Sources						
Recurrent Expenses	16,046	7,750	6,401	1,156	1,156	16,464
Capital Expenses	2,737	1,445	1,518	-	-	2,963
Total Confirmed Funds from Other Sources	18,783	9,196	7,919	1,156	1,156	19,427
<i>Growth on Previous Year</i>		-51.0%	-13.9%	-85.4%	0.0%	-87.4%
Combined Sources Budget						
Recurrent Expenses	25,112	18,055	18,012	13,447	12,711	62,226
<i>Growth on Previous Year</i>		-28.1%	-0.2%	-25.3%	-5.5%	-29.6%
Capital Expenses	-	-	-	-	-	14,879
<i>Growth on Previous Year</i>		na	na	na	na	na
Total Combined Sources Budget	25,112	18,055	18,012	13,447	12,711	77,105
<i>Growth on Previous Year</i>		-28.1%	-0.2%	-25.3%	-5.5%	-29.6%
Further Funding Required						
Recurrent Expenses	3,503	6,205	6,544	1,157	-	13,905
Capital Expenses	1,775	3,325	4,580	4,300	1,805	14,010
Total	5,278	9,530	11,124	5,457	1,805	27,915

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	0	181	986	392	149	50	2	1,760
Temporary	0	1	18	2	1	1	0	23
Total	0	182	1,004	394	150	51	2	1,783

ROLE OF THE MINISTRY OF HEALTH AND INTEGRATION WITH SIPS

The roles of the Ministry of Health is to reduce the incidence of morbidity and mortality in Timor Leste by providing of efficient and effective health services, including high quality hospital, laboratory, and pharmaceutical services. The activities of the Ministry of Health are contained within the "Health" SIP.

Total health expenditures in five-year period from 1999/00 to 2003/04 were over \$106m. Total health expenditure increased from \$18.5 million in 1999/00 to almost \$25 million in 2003/04 with donors funding about 70 percent of expenses, although in the last two years budget allocations accounted for almost 40 percent of total spending.

In accordance with the Timor-Leste health policy framework (HPF), most health expenditure has been concentrated on primary and preventive health care services at the district level, with these outlays accounting for about 65% of total spending in the past five years. While the HPF provides for up to 40% of health expenditure to be committed to hospitals, only 26% of expenditure was allocated to hospitals and specialised services over this five-year period.

Over these five years, considerable gains have been made in extending immunization coverage and improving access to primary health care services. The concentration has been on boosting the consumption of health services by the population and rehabilitating infrastructure for district health services. However, the

task of rehabilitating health infrastructure is a massive one, and much remains to be done to put in place a reasonable level of facilities for the operation of district health services. Hospital infrastructure is also in need of attention. The provision of health services in renovated facilities would provide a further incentive for the population to avail themselves of these services. As has already been discussed, utilisation rates of health services in Timor-Leste are sub-optimal. Improvements in facilities will go some way towards addressing this problem.

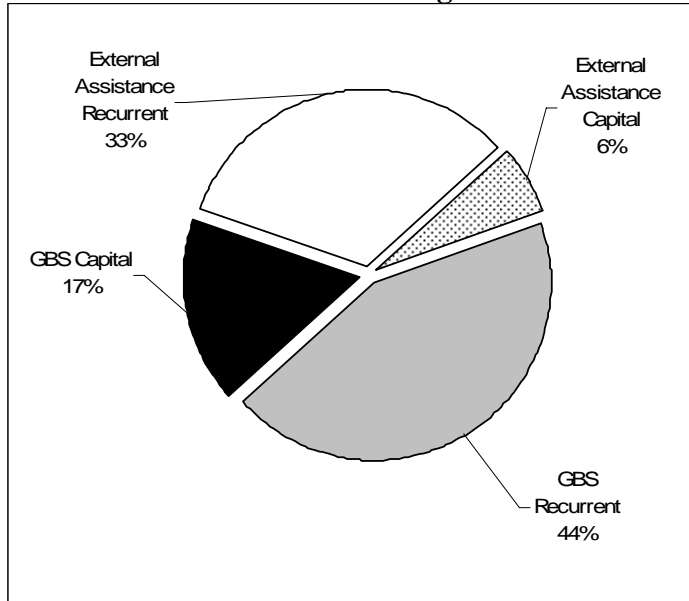
Proposed expenditures for the health sector amount to \$127 million in the period from 2004-05 to 2008-09 – an increase of 19% over the previous five years. Ongoing expenditure commitments for the next five years amount to \$94m. Proposed new disbursements amount to \$33 million. Donors have been identified for new projects costing \$0.7m. This leaves a financing gap of about \$32m for proposed projects over the period 2004/05 to 2008/09.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

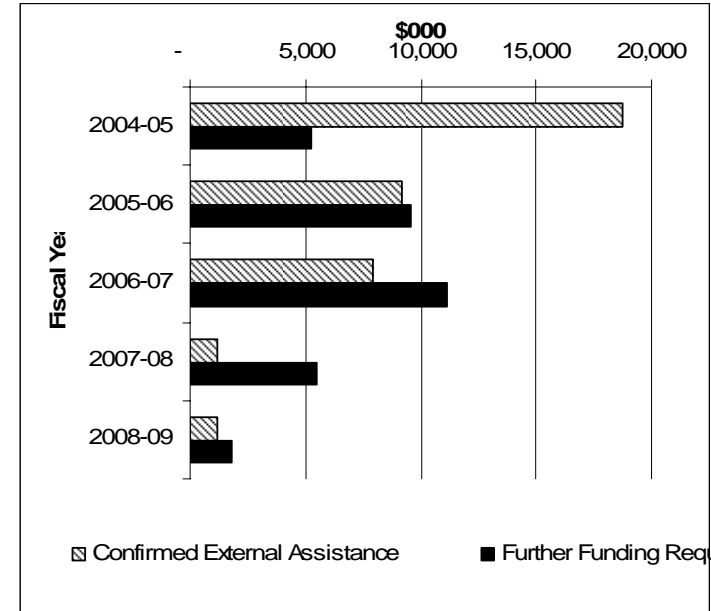
To improve services to the regions, the health services programs will be divided into 23 separate programs which have been restructured to show the separate districts and funding to those districts. District health services will be funded through each separate program. This will improve transparency and the quality of services to districts.

The Autonomous Medical Supplies Stores service will be set up as a separate institution under the Minister for Health and will charge for providing supplies.

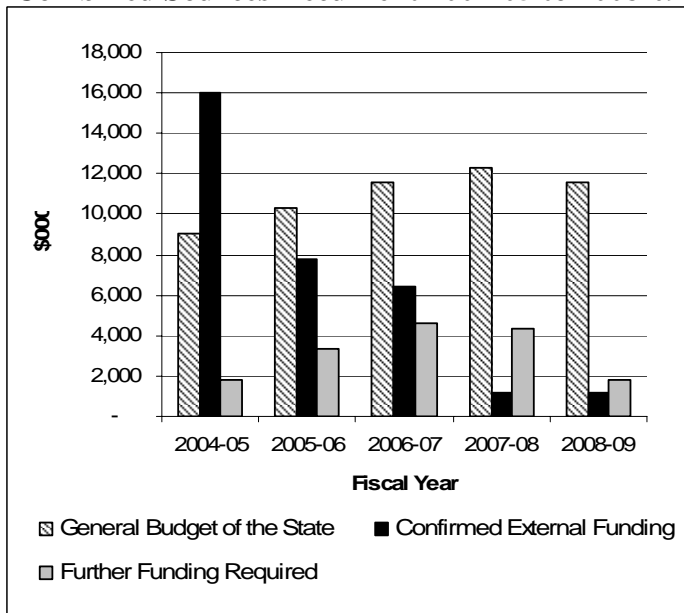
**Chart 6.49
Combined Sources Budget 2005-06**



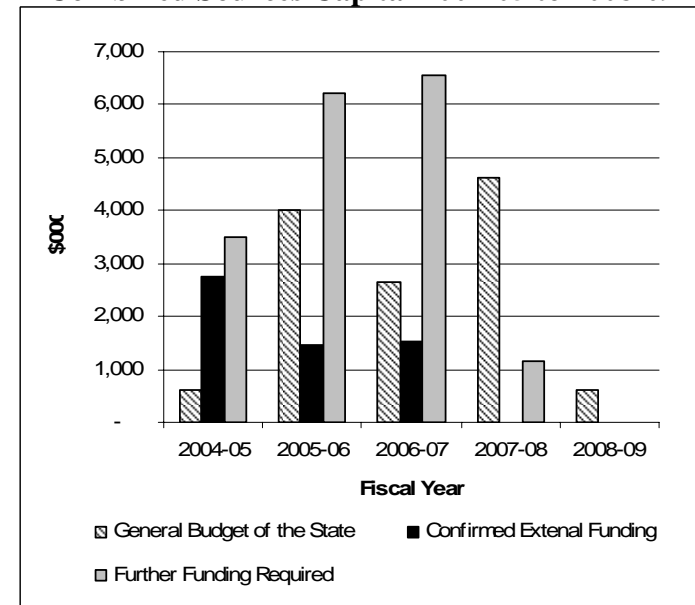
**Chart 6.50
External Assistance 2004-05 to 2008-09**



**Chart 6.51
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.52
Combined Sources Capital 2004-05 to 2008-09**



Ministry of Labour and Community Reintegration

Table 6.23
Funding and Staffing Overview Ministry of Labour and Community Reintegration
(\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	199	232	571	593	607	2,003
Goods and Services	279	373	345	365	379	1,462
Minor Capital	12	2	27	27	28	84
Total Recurrent Expenses	490	607	943	985	1,014	3,549
<i>Growth on Previous Year</i>		23.9%	55.4%	4.5%	2.9%	67.1%
Total Capital and Development	-	253	-	-	-	253
<i>Growth on Previous Year</i>		na	na	na	na	na
Total General Budget of the State	490	860	943	985	1,014	3,802
<i>Growth on Previous Year</i>		75.5%	9.7%	4.5%	2.9%	17.9%
Confirmed Funds From Other Sources						
Recurrent Expenses	375	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	375	-	-	-	-	-
<i>Growth on Previous Year</i>		-100.0%	na	na	na	na
Combined Sources Budget						
Recurrent Expenses	865	607	943	985	1,014	3,549
<i>Growth on Previous Year</i>		-29.8%	55.4%	4.5%	2.9%	67.1%
Capital Expenses	-	253	-	-	-	253
<i>Growth on Previous Year</i>		na	na	na	na	na
Total Combined Sources Budget	865	860	943	985	1,014	3,802
<i>Growth on Previous Year</i>		-0.6%	9.7%	4.5%	2.9%	17.9%
Further Funding Required						
Recurrent Expenses	500	1,500	1,600	300	200	3,600
Capital Expenses	-	-	-	-	-	-
Total	500	1,500	1,600	300	200	3,600

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	1	10	60	21	7	5	0	104
Temporary	7	1	1	1	0	0	0	10
Total	8	11	61	22	7	5	0	114

ROLE OF THE MINISTRY OF LABOUR AND COMMUNITY REINTEGRATION AND INTEGRATION WITH THE SIPS

The role of Ministry of Labour and Reintegration is to promote economic growth through harmonious and cooperative industrial relations; to increase workforce participation and decrease unemployment through more skilled labour; to protect the most vulnerable groups in society; and reintegration of veterans and ex-combatants into mainstream society through education, jobs and equal rights. The activities of the Ministry of Labour and Community Reintegration are contained in the SIP on "Protection and Civil Society."

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

The establishment of the National Prosthetics and Orthotics resource centre in Dili, (Becora) will provide high quality and affordable prosthetic and orthotic devices and/or mobility aids.

The Ministry will commission a War Memorial (Garden of Heroes) to honour those who contributed to the struggle for independence. The Ministry will also implement a National labour code, and a work skill program for employment placements.

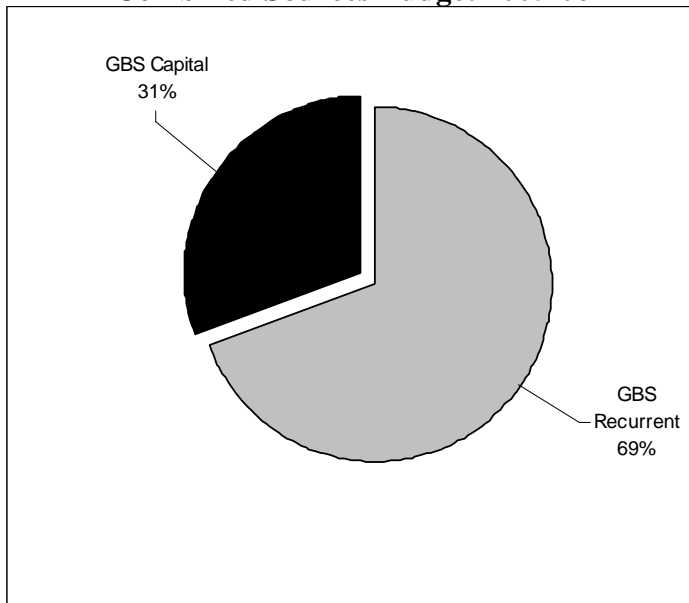
There will be some expansion of the scope of social services to various disadvantaged groups through food distribution and basic necessities.

They will also implement a program of assistance (with some cooperation from donors) to veterans and ex-combatants, such as housing and basic services.

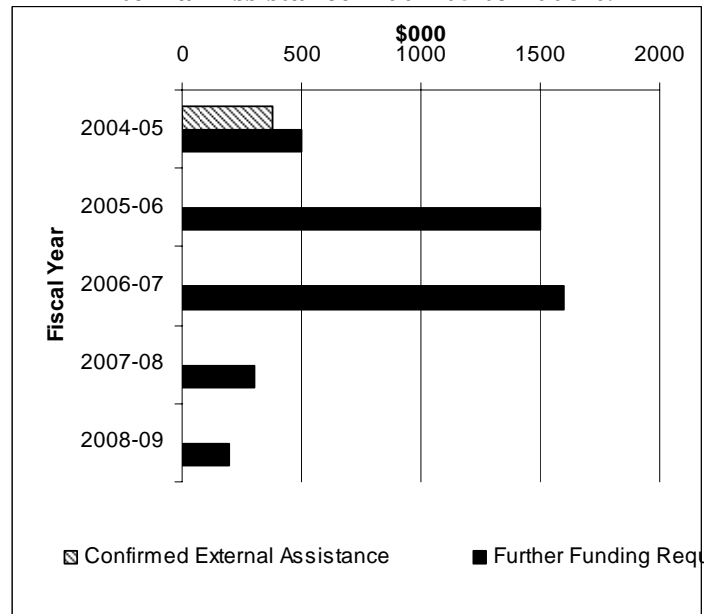
The Ministry is also embarking on a program of improved administrative, logistics and financial support capabilities at head office and the regional centres.

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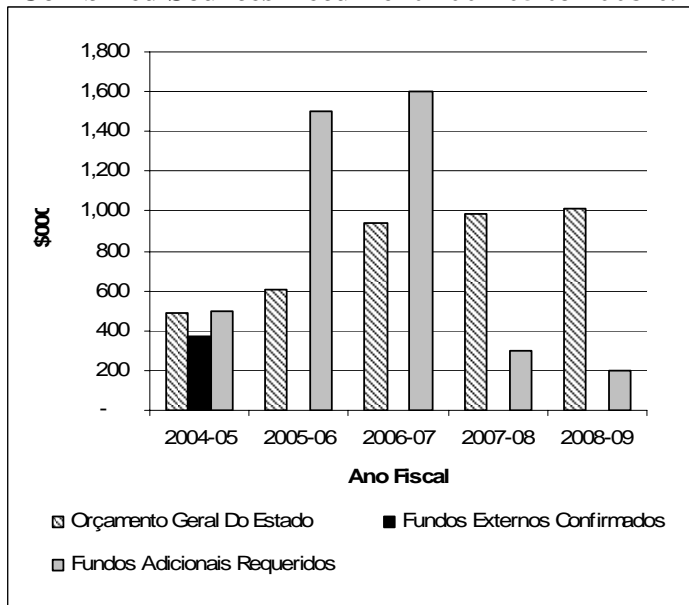
**Chart 6.53
Combined Sources Budget 2005-06**



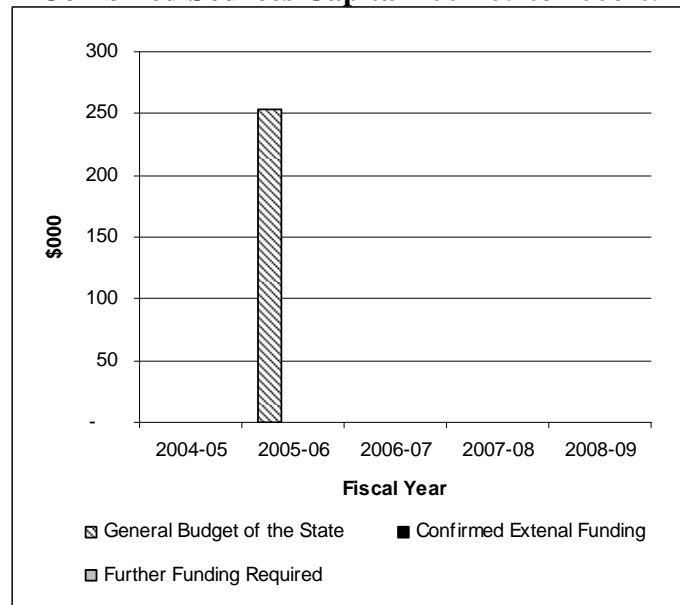
**Chart 6.54
External Assistance 2004-05 to 2008-09**



**Chart 6.55
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.56
Combined Sources Capital 2004-05 to 2008-09**



Ministry of Foreign Affairs and Cooperation

Table 6.24
Funding and Staffing Overview Ministry of Foreign Affairs and Cooperation(\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	217	221	221	221	221	884
Goods and Services	2,068	2,417	2,520	2,643	2,759	10,339
Minor Capital	151	40	-	-	-	40
Total Recurrent Expenses	2,436	2,678	2,741	2,864	2,980	11,263
<i>Growth on Previous Year</i>		9.9%	2.4%	4.5%	4.1%	11.3%
Total Capital and Development	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Total General Budget of the State	2,436	2,678	2,741	2,864	2,980	11,263
<i>Growth on Previous Year</i>		9.9%	2.4%	4.5%	4.1%	11.3%
Confirmed Funds From Other Sources						
Recurrent Expenses	1,396	-	-	-	-	-
Capital Expenses	1,588	2,000	500	-	-	2,500
Total Confirmed Funds from Other Sources	2,984	2,000	500	-	-	2,500
<i>Growth on Previous Year</i>		-33.0%	-75.0%			
Combined Sources Budget						
Recurrent Expenses	3,832	2,678	2,741	2,864	2,980	11,263
<i>Growth on Previous Year</i>		-30.1%	2.4%	4.5%	4.1%	11.3%
Capital Expenses	1,588	2,000	500	-	-	2,500
<i>Growth on Previous Year</i>		25.9%	-75.0%	-100.0%	na	-100.0%
Total Combined Sources Budget	5,420	4,678	3,241	2,864	2,980	13,763
<i>Growth on Previous Year</i>		-13.7%	-30.7%	-11.6%	4.1%	-36.3%
Further Funding Required						
Recurrent Expenses	510	970	1,110	325	325	2,730
Capital Expenses	798	307	307	30	-	644
Total	1,308	1,277	1,417	355	325	3,374

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	3	3	11	24	12	14	1	68
Temporary	2	2	0	0	2	8	0	14
Total	5	5	11	24	14	22	1	82

ROLE OF THE MINISTRY OF FOREIGN AFFAIRS AND COOPERATION AND INTEGRATION WITH SIPS

The role of the Ministry for Foreign Affairs and Cooperation is to strengthen the diplomatic relations and the international contribution to support Timor-Leste's development. The activities of the Ministry of Foreign Affairs and Cooperation are contained within the "External Affairs" SIP.

Over the next five years, the main challenge is to build the Ministry's diplomatic capacity and its ability to engage in international cooperation. This capacity building would address the following four sets of issues:

Build the capacities of MFAC for international diplomacy.

Strengthen legal and other technical capacities for evaluating the costs and benefits of memberships in international organisations and of becoming a signatory to various international conventions and treaties.

Strengthen policies and programs aimed at expanding trade relations with other countries and attracting international investment to Timor-Leste.

Strengthen mechanisms within the Government for inter-agency coordination and information sharing in areas where policies and programs have implications for bilateral, multilateral and regional relationships and cooperation.

Total expenditures on External Relations and Cooperation Sector programs amounted to about \$38 million during the five-year period ending FY2003/04, 90% of which was funded by donors. Expenditures are dominated by the extraordinary levels of donor support in 1999. Budget appropriations jumped sharply in 2002/03 following Independence in May 2002 and in 2003-04 at 50%.

Budget outlays for operating eight embassies and a consulate averaged \$870,000 in the past two years. However, this figure understates the true cost of embassy operations. Just maintaining the current level of representation overseas would require a sum of \$4 million in property rents alone. Timor-Leste's diplomatic presence in so many foreign capitals is due to skilful use of offset arrangements involving waiver of rents by the host country and provision of office space by closely allied CPLP countries such as Portugal (for the embassy in Lisbon and the permanent missions in New York and Brussels) and Cape Verde (for the embassy in Washington).

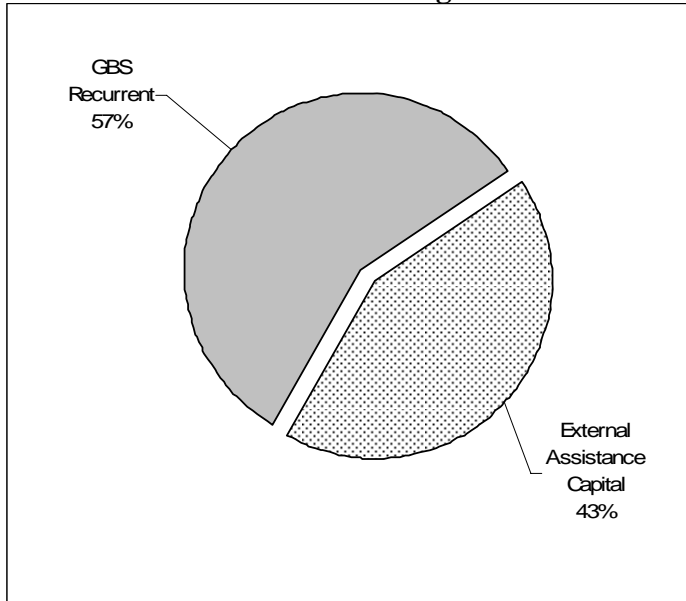
Over the five-year period ending FY2008/09, total expenditures in the external relations sector would amount to around \$23 million. The Budget of the State would account for more than half of the total outlays. Existing CFET allocations and ongoing donor programs would account for almost \$13 million of the proposed program, leaving a total of \$5.5 million of new donor funding to be raised.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

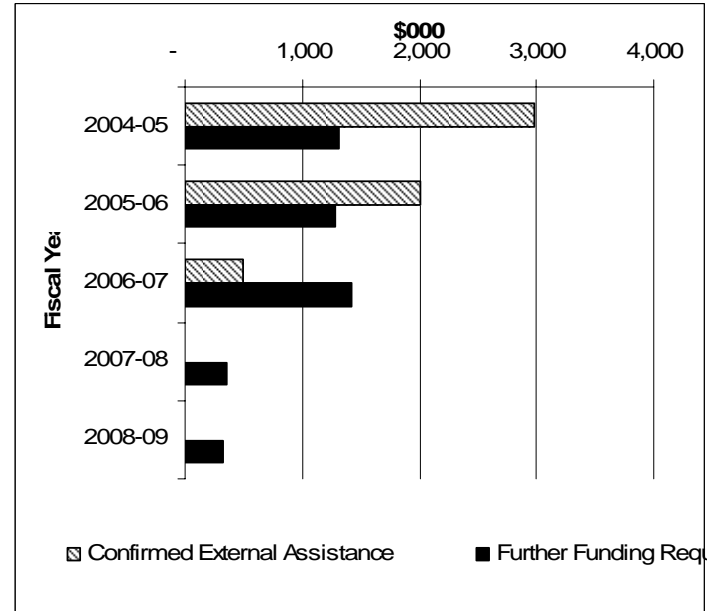
The Ministry of Foreign Affairs and Cooperation will open two consulates in Indonesia – Kupang and Denpasar. This will facilitate the repatriation of citizens of Timor Leste still living in West Timor and assist ministers and officials when transiting Bali on duty travel.

To enable further improvements in external relations, the Ministry will have an increase in its overseas travel budget which is accessed from the central Government pool for overseas travel from \$100,000 to \$150,000 in 2005-06.

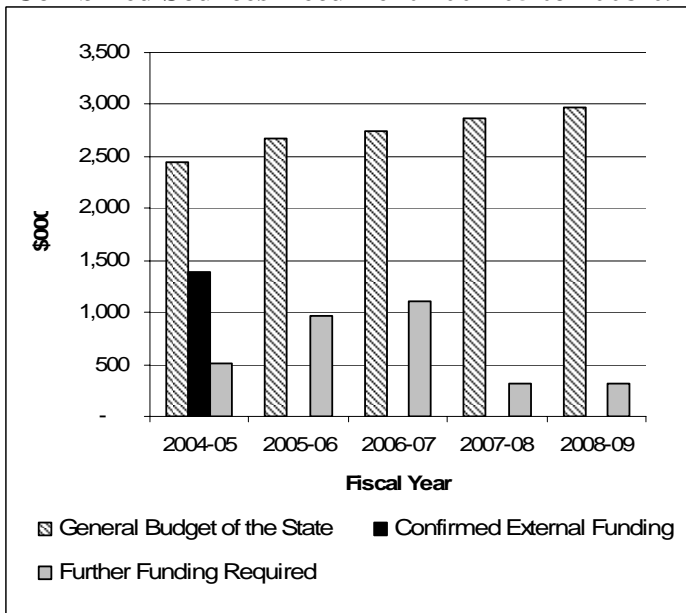
**Chart 6.57
Combined Sources Budget 2005-06**



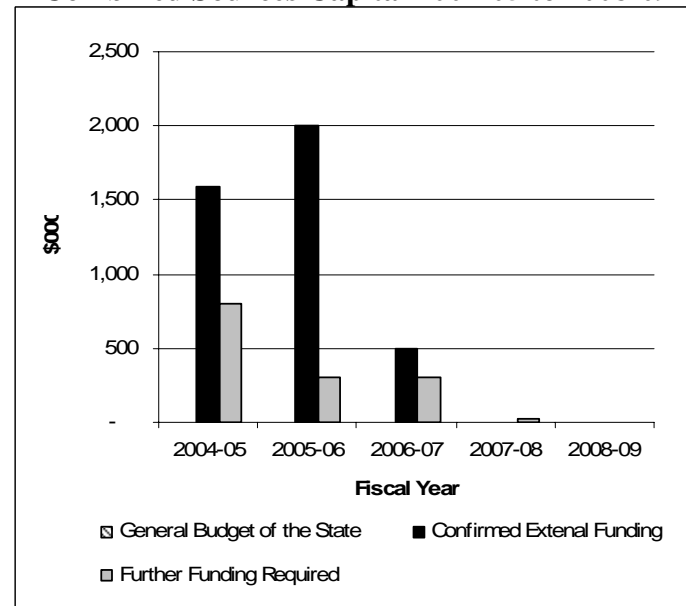
**Chart 6.58
External Assistance 2004-05 to 2008-09**



**Chart 6.59
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.60
Combined Sources Capital 2004-05 to 2008-09**



Ministry of Planning and Finance

Table 6.25
Funding and Staffing Overview Ministry of (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	981	1,002	1,019	1,027	1,043	4,091
Goods and Services	3,017	5,594	4,236	3,613	3,741	17,184
Minor Capital	77	120	139	153	127	539
Total Recurrent Expenses	4,075	6,716	5,394	4,793	4,911	21,814
<i>Growth on Previous Year</i>		64.8%	-19.7%	-11.1%	2.5%	-26.9%
Total Capital and Development						
	35	215	172	122	24	533
<i>Growth on Previous Year</i>		514.3%	-20.0%	-29.1%	-80.3%	-88.8%
Total General Budget of the State	4,110	6,931	5,566	4,915	4,935	22,347
<i>Growth on Previous Year</i>		68.6%	-19.7%	-11.7%	0.4%	-28.8%
Confirmed Funds From Other Sources						
Recurrent Expenses	9,574	414	-	-	-	414
Capital Expenses	113	112	101	101	-	101
Total Confirmed Funds from Other Sources	9,687	526	101	101	-	729
<i>Growth on Previous Year</i>		-94.6%	-80.7%	0.0%	-100.0%	-100.0%
Combined Sources Budget						
Recurrent Expenses	13,649	7,130	5,394	4,793	4,911	22,228
<i>Growth on Previous Year</i>		-47.8%	-24.3%	-11.1%	2.5%	-31.1%
Capital Expenses	148	327	273	223	24	634
<i>Growth on Previous Year</i>		121.4%	-16.5%	-18.3%	-89.3%	-92.7%
Total Combined Sources Budget	13,797	7,457	5,667	5,016	4,935	22,862
<i>Growth on Previous Year</i>		-45.9%	-24.0%	-11.5%	-1.6%	-33.8%
Further Funding Required						
Recurrent Expenses	30	10,820	13,280	11,330	7,950	43,380
Capital Expenses	-	250	250	-	-	500
Total	30	11,070	13,530	11,330	7,950	43,880

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	14	93	147	186	57	20	1	518
Temporary	0	35	8	1	0	0	0	44
Total	14	128	155	187	57	20	1	562

ROLE OF THE MINISTRY OF PLANNING AND FINANCE AND INTEGRATION WITH SIPS

The roles of the Ministry of Planning and Finance are the efficient management of government resources and assets through: planning and developing the National Budget; collection of revenue (taxes and customs); efficient procurement and management of goods and services used by Government; and provision of regular and reliable statistical data on Timor Leste. The Ministry also advises on economic policy for sustainability in the medium term. The activities of the Ministry of Planning and Finance are contained within the "Public Sector Management" SIP.

Total spending on Public Sector Management programs related to the activities of the Ministry in the five years amounted to about \$114 million, 70 % of which was funded by Development Partners and 19 percent through UN assessments. Annual outlays expanded rapidly during the first four years, and after peaking at \$42 million in FY2002/03, dropped to \$30 million last year. The decline stemmed from reduced levels on spending on expatriate advisors with the phase down in the role of UNMISSET.

Total funding for activities within the Ministry of Planning excluding United Nations stability and critical posts (counted within Ministry of State Administration) in the same period was over \$17 million.

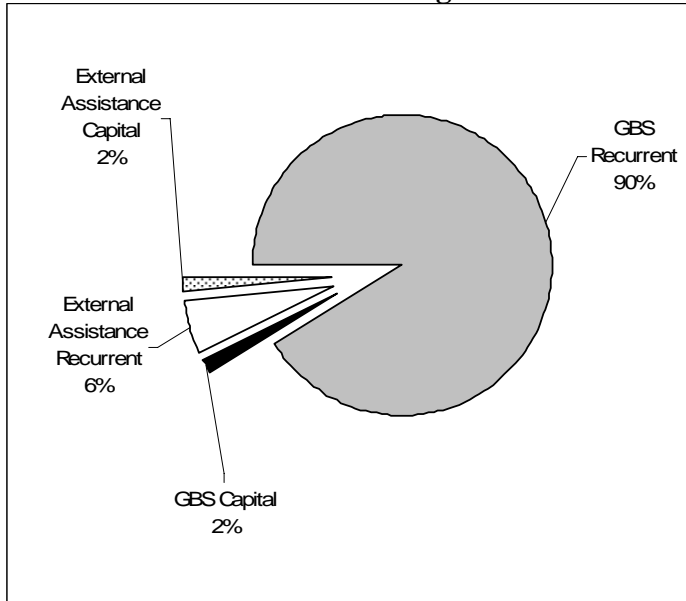
The proposed expenditure program for the PSM sector amounts to \$108 million for the five year period ending 2008/09. The proposed PSM program is most directly associated with capacity building in the civil service. Total expenditures for activities within the Ministry of Planning and Finance represent approximately

\$44 million. The proposed program represents a significant shift in emphasis compared to the program in previous years. These shifts reflect the Government's decision to accelerate significantly the development of the civil service through a combination of training, institutional development and improved systems and procedures.

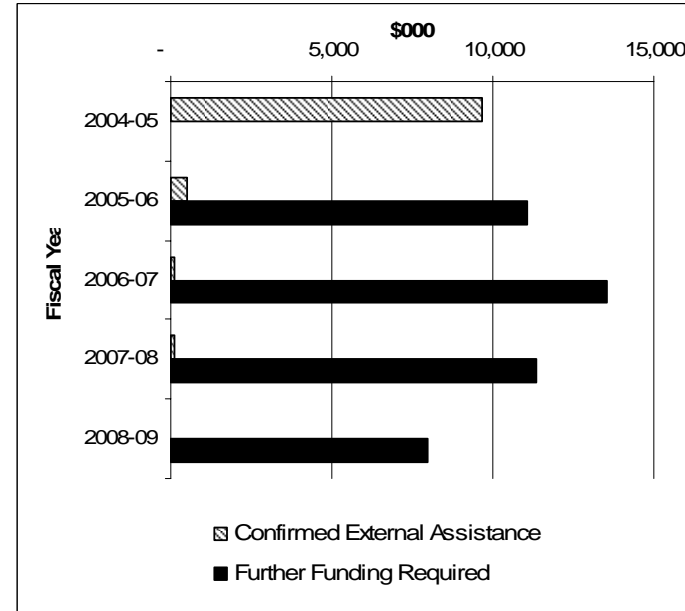
GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

The Ministry of Planning and Finance will further strengthen the Customs Service with a view to reducing evasion and thus significantly increasing customs collection net of the costs of collection. Additional Budget funding will be provided to enable the establishment of six new Customs posts to implement this initiative.

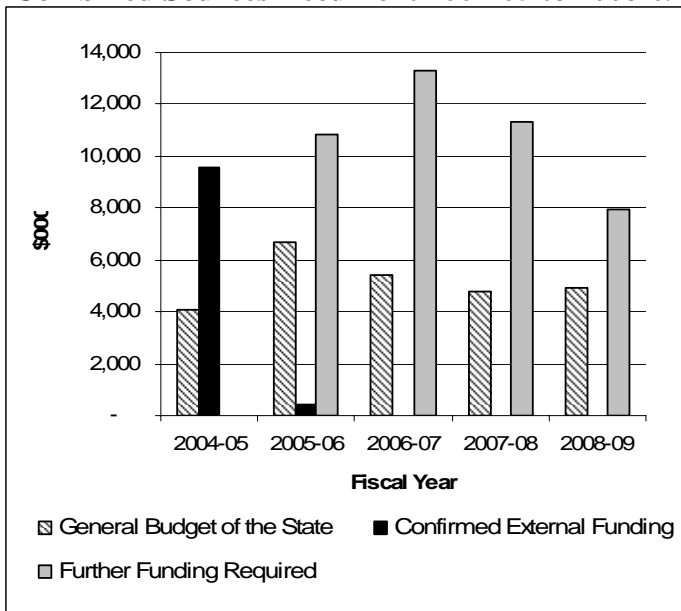
**Chart 6.61
Combined Sources Budget 2005-06**



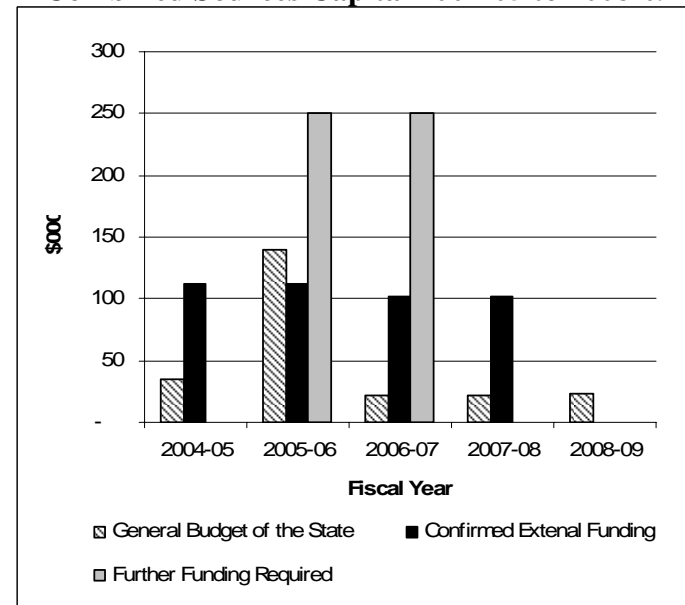
**Chart 6.62
External Assistance 2004-05 to 2008-09**



**Chart 6.63
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.64
Combined Sources Capital 2004-05 to 2008-09**



Ministry of Transport and Communications

Table 6.26
Funding and Staffing Overview Ministry of Transport and Communications (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	604	675	684	698	716	2,773
Goods and Services	1,653	2,371	3,631	3,640	3,820	13,462
Minor Capital	306	663	741	721	676	2,801
Total Recurrent Expenses	2,563	3,709	5,056	5,059	5,212	19,036
<i>Growth on Previous Year</i>		44.7%	36.3%	0.1%	3.0%	40.5%
Total Capital and Development	723	2,025	2,013	4,156	3,192	11,386
<i>Growth on Previous Year</i>		180.1%	-0.6%	106.5%	-23.2%	57.6%
Total General Budget of the State	3,286	5,734	7,069	9,215	8,404	30,422
<i>Growth on Previous Year</i>		74.5%	23.3%	30.4%	-8.8%	46.6%
Confirmed Funds From Other Sources						
Recurrent Expenses	304	950	605	170	170	1,895
Capital Expenses	451	2,017	1,167	1,179	320	4,683
Total Confirmed Funds from Other Sources	755	2,967	1,772	1,349	490	6,578
<i>Growth on Previous Year</i>		292.9%	-40.3%	-23.9%	-63.7%	-83.5%
Combined Sources Budget						
Recurrent Expenses	2,867	4,659	5,661	5,229	5,382	20,931
<i>Growth on Previous Year</i>		62.5%	21.5%	-7.6%	2.9%	15.5%
Capital Expenses	1,174	4,042	3,180	5,335	3,512	16,069
<i>Growth on Previous Year</i>		244.2%	-21.3%	67.8%	-34.2%	-13.1%
Total Combined Sources Budget	4,041	8,701	8,841	10,564	8,894	37,000
<i>Growth on Previous Year</i>		115.3%	1.6%	19.5%	-15.8%	2.2%
Further Funding Required						
Recurrent Expenses	664	950	605	170	170	1,895
Capital Expenses	270	2,017	1,167	1,179	320	4,683
Total	934	2,967	1,772	1,349	490	6,578

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	10	23	52	30	17	7	1	140
Temporary	5	3	32	14	4	1	0	59
Total	15	26	84	44	21	8	1	199

ROLE OF THE MINISTRY OF TRANSPORT AND COMMUNICATIONS AND INTEGRATION WITH SIPS

The roles of the Ministry of Transport and Communications is to plan, research and regulate land, water and air transport; to improve the management of erosion and flooding; to provide and regulate telecommunications and postal services across Timor-Leste; to provide Government with an adequate IT infrastructure; and to provide meteorological services. The activities of the Ministry of Transport, Communications and Public Works are spread amongst a number of sectors including: "Transport"; "Communication"; "Water Supply and Sanitation" and "Housing and Urban Development".

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

The Ministry will further improve the access to meteorological regional information to assist with accurate forecasting. Initial activities will involve rehabilitation of meteorological instruments and the introduction of meteorological and seismological services. .

The Ministry will start road safety program support, with the Directorate of Roads working with Police and Land Transport to identify critical points where accidents happen and install traffic lights.

Chart 6.65
Combined Sources Budget 2005-06

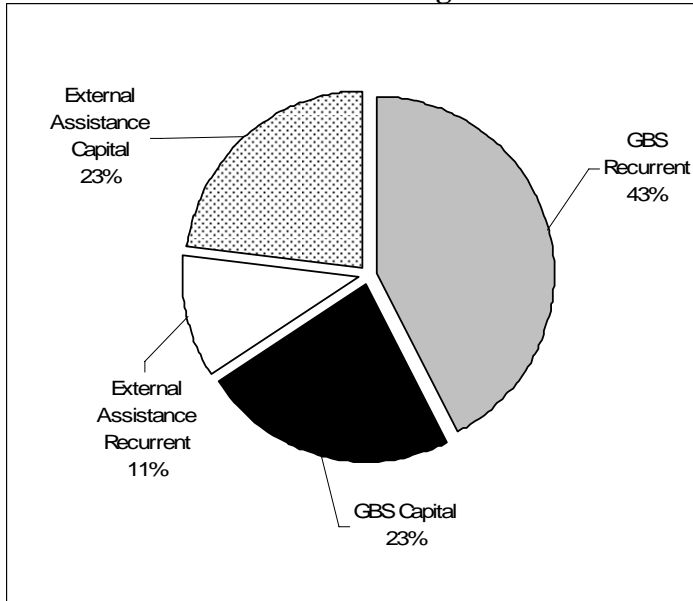


Chart 6.66
External Assistance 2004-05 to 2008-09

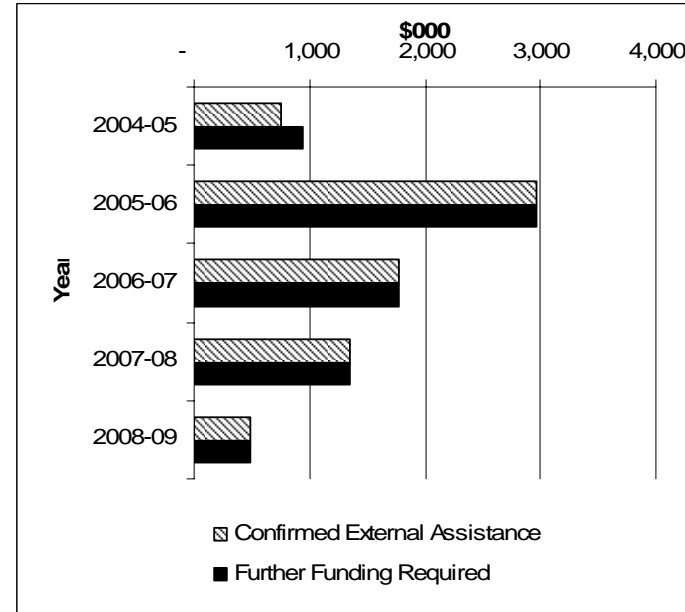


Chart 6.67
Combined Sources Recurrent 2004-05 to 2008-09

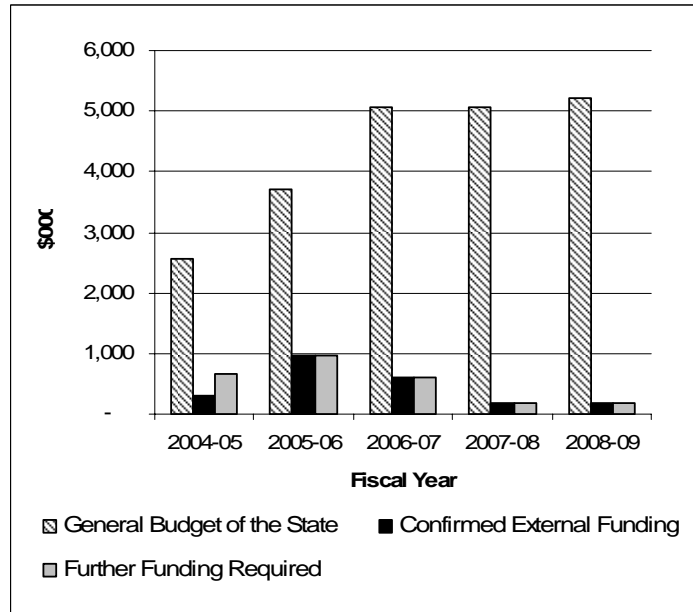
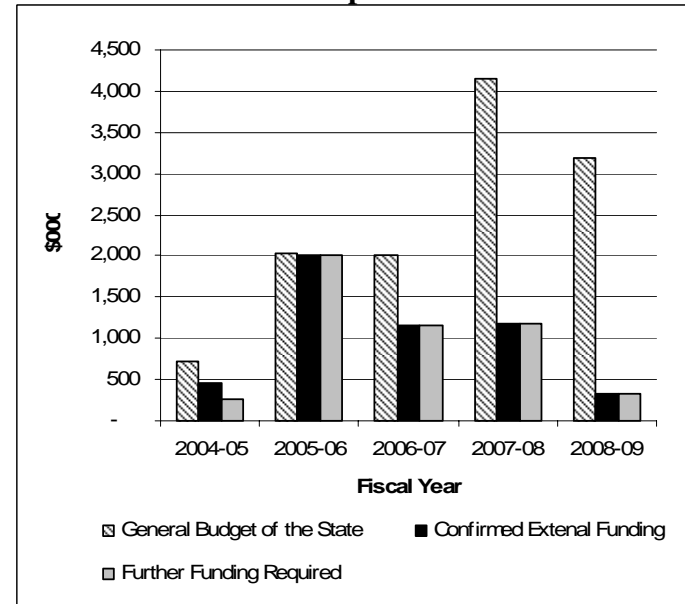


Chart 6.68
Combined Sources Capital 2004-05 to 2008-09



Ministry of Public Works

Table 6.27
Funding and Staffing Overview Ministry of Public Works (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	264	231	241	245	240	957
Goods and Services	217	445	678	696	756	2,575
Minor Capital	28	129	45	53	44	271
Total Recurrent Expenses	509	805	964	994	1,040	3,803
<i>Growth on Previous Year</i>		58.2%	19.8%	3.1%	4.6%	29.2%
Total Capital and Development	4,135	5,145	6,050	6,685	7,600	25,480
<i>Growth on Previous Year</i>		24.4%	17.6%	10.5%	13.7%	47.7%
Total General Budget of the State	4,644	5,950	7,014	7,679	8,640	29,283
<i>Growth on Previous Year</i>		28.1%	17.9%	9.5%	12.5%	45.2%
Confirmed Funds From Other Sources						
Recurrent Expenses	553	250	0	0	0	250
Capital Expenses	7912	9953	10927	4433	352	25,665
Total Confirmed Funds from Other Sources	8465	10203	10927	4433	352	25,915
<i>Growth on Previous Year</i>		20.5%	7.1%	-59.4%	-92.1%	-96.6%
Combined Sources Budget						
Recurrent Expenses	1,062	1,055	964	994	1,040	4,053
<i>Growth on Previous Year</i>		-0.7%	-8.6%	3.1%	4.6%	-1.4%
Capital Expenses	12,047	15,098	16,977	11,118	7,952	51,145
<i>Growth on Previous Year</i>		25.3%	12.4%	-34.5%	-28.5%	-47.3%
Total Combined Sources Budget	13,109	16,153	17,941	12,112	8,992	55,198
<i>Growth on Previous Year</i>		23.2%	11.1%	-32.5%	-25.8%	-44.3%
Further Funding Required						
Recurrent Expenses	675	2,039	2,650	1,050	300	6,039
Capital Expenses	-	4,000	8,000	13,000	12,500	37,500
Total	675	6,039	10,650	14,050	12,800	43,539

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	22	29	42	57	33	5	1	189
Temporary	2	3	14	1	4	1	0	25
Total	24	32	56	58	37	6	1	214

Role of the Ministry of Public Works and integration with the SIPS

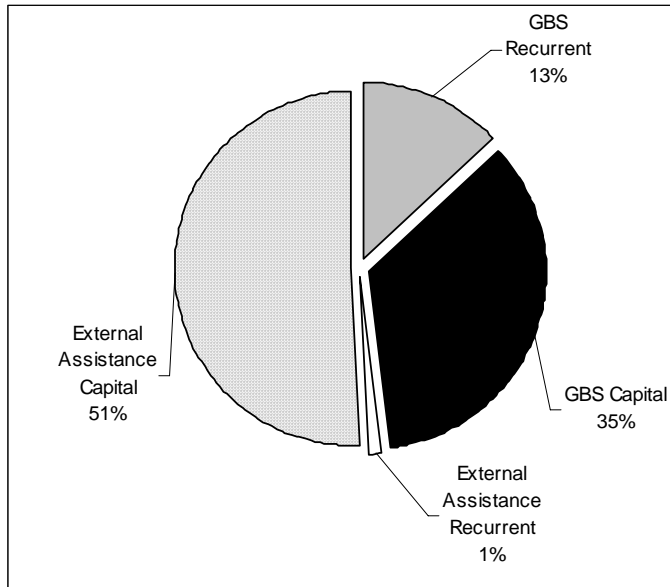
The role of the Ministry of Public Works is to plan, research and commission public works including roads, bridges and public buildings; and to improve the management of erosion and flooding. The activities of the Ministry of Public Works are contained in the SIP on "Housing and Urban Development".

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

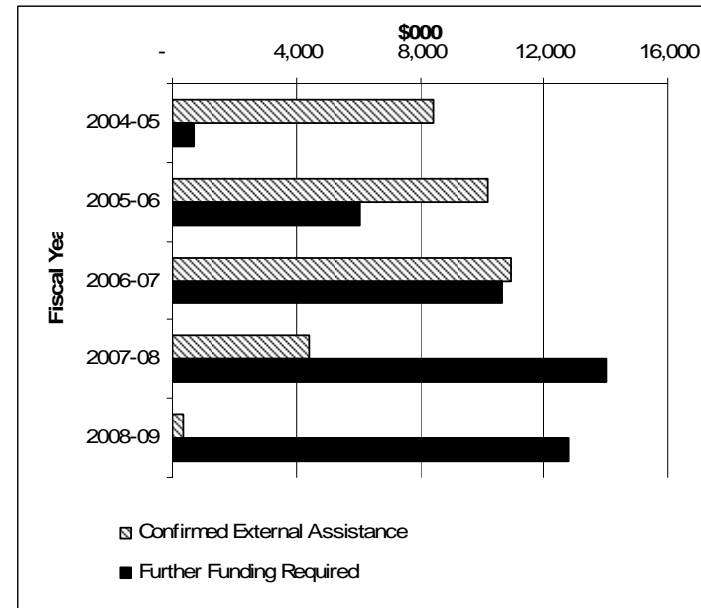
The Ministry of Public Works will build a significant number of new roads both in Dili and the districts during 2005-06. It will also improve existing roads and bridges which have fallen into disrepair. New roads will be constructed from Uaiaka to Quelicai and Vemasse to Baucau. There will also be a major rehabilitation of the Dilor Bridge in Viqueque.

The Ministry will also undertake works to improve flood control of some of the larger rivers in the districts. Some of these will occur in the Boromata River in Viqueque and the Laga River in Baucau.

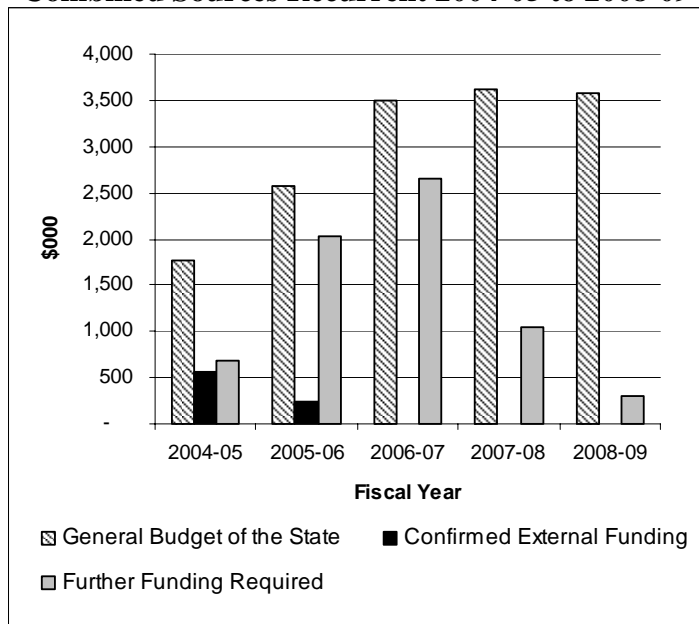
**Chart 6.69
Combined Sources Budget 2005-06**



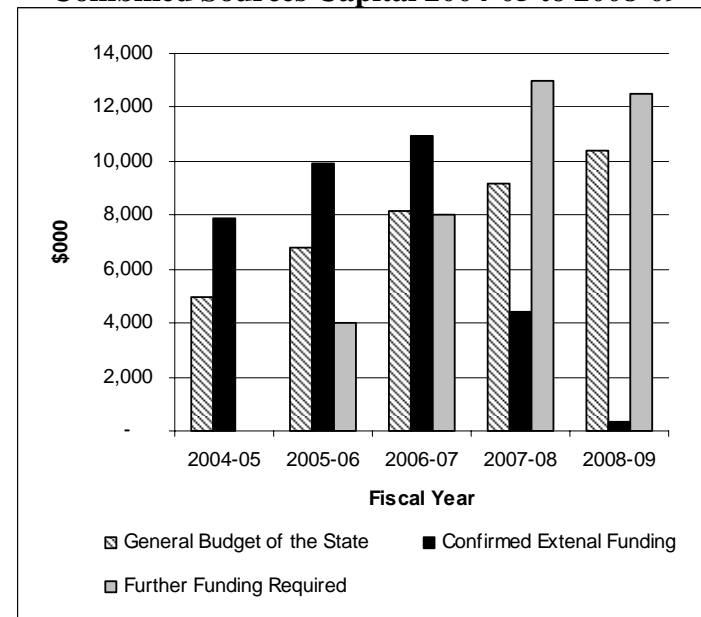
**Chart 6.70
External Assistance 2004-05 to 2008-09**



**Chart 6.71
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.72
Combined Sources Capital 2004-05 to 2008-09**



Ministry of Natural Resources, Minerals and Energy Policy

Table 6.28
Funding and Staffing Overview Ministry of Natural Resources, Minerals and Energy Policy(\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	702	743	772	798	840	3,153
Goods and Services	12,260	12,796	14,407	16,162	16,466	59,831
Minor Capital	223	404	609	713	763	2,489
Total Recurrent Expenses	13,185	13,943	15,788	17,673	18,069	65,473
<i>Growth on Previous Year</i>		5.7%	13.2%	11.9%	2.2%	29.6%
Total Capital and Development	1,340	2,768	3,300	4,000	4,000	14,068
<i>Growth on Previous Year</i>		106.6%	19.2%	21.2%	0.0%	44.5%
Total General Budget of the State	14,525	16,711	19,088	21,673	22,069	79,541
<i>Growth on Previous Year</i>		15.0%	14.2%	13.5%	1.8%	32.1%
Confirmed Funds From Other Sources						
Recurrent Expenses	2970.39	1681.26	1014	318.571	228.571	3,242
Capital Expenses	5515.2	7651.2	2150	0	0	9,801
Total Confirmed Funds from Other Sources	8485.59	9332.46	3164	318.571	228.571	13,044
<i>Growth on Previous Year</i>		10.0%	-66.1%	-89.9%	-28.3%	-97.6%
Combined Sources Budget						
Recurrent Expenses	16,155	15,624	16,802	17,992	18,298	68,715
<i>Growth on Previous Year</i>		-3.3%	7.5%	7.1%	1.7%	17.1%
Capital Expenses	6,855	10,419	5,450	4,000	4,000	23,869
<i>Growth on Previous Year</i>		52.0%	-47.7%	-26.6%	0.0%	-61.6%
Total Combined Sources Budget	23,011	26,043	22,252	21,992	22,298	92,585
<i>Growth on Previous Year</i>		13.2%	-14.6%	-1.2%	1.4%	-14.4%
Further Funding Required						
Recurrent Expenses	1,575	3,173	3,442	1,000	-	7,615
Capital Expenses	2,790	10,138	8,417	8,800	9,317	36,672
Total	4,365	13,311	11,859	9,800	9,317	44,287

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	42	60	44	36	8	4	0	194
Temporary	0	8	0	0	0	0	0	8
Total	42	68	44	36	8	4	0	202

ROLE OF THE THE MINISTRY OF NATURAL RESOURCES, MINERALS AND ENERGY POLICY AND INTEGRATION WITH THE SIPS

The role of the Ministry of Natural Resources, Minerals and Energy Policy is to manage the natural resources of Timor Leste efficiently and in a consistent and environmentally acceptable way.

The activities of the Ministry of Natural Resources, Minerals and Energy Policy are contained in the SIPs on "Natural Resources, Minerals and Energy Policy", "Power", "Water Supply and Sanitation".

In the five year period ending 2003/04, a total of \$10.4 m was spent on programs in the natural resources sector 90% of which was funded by development partners, whilst \$30m spent on development of the private sector, 90% of which was also funded by development partners.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

The Government is proposing a significant increase in total combined spending on natural resources over the next four years. The majority of which is aimed at:

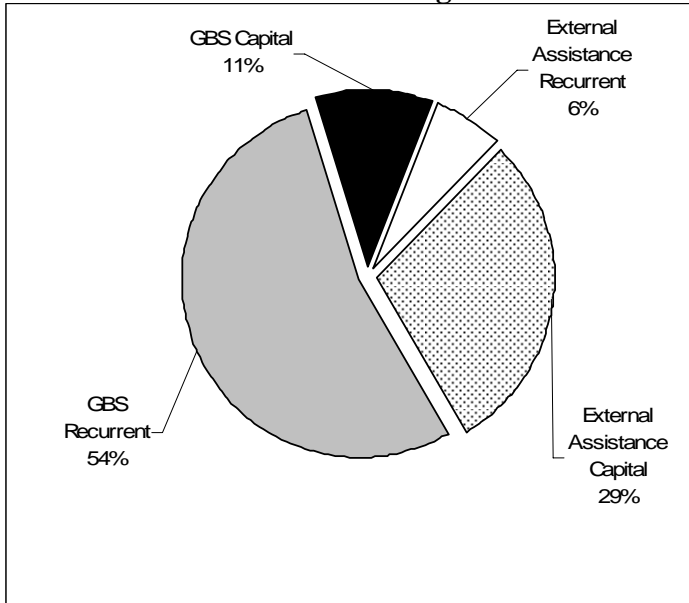
- laying the foundations to enable the conditions for increased private investment in resource related industries;
- improving the understanding of the resource base of the country and its prudent management; and

- strengthening the legal and regulatory capacities of Government

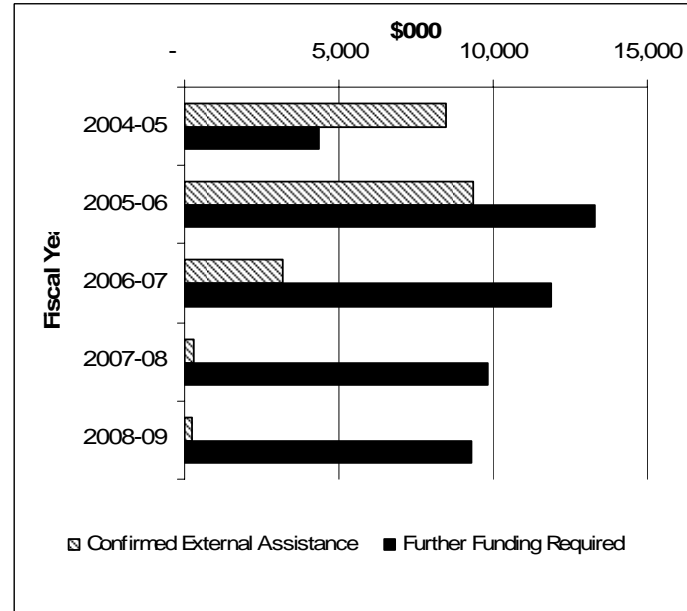
Two new Directorates have been created, a new Oil and Gas Directorate, and a new Geology and Mineral Resources Directorate. A new permanent Secretary has also been appointed. Further strengthening of the administration will be achieved with the creation of a finance and legal section.

The proposed level of expenditures in the natural resources sector is estimated to be \$21 million from 2004/05 to 2008/09, some \$7 m of which is related to development partner programs ongoing and under preparation and current budget allocations. Disbursements from proposed new projects and programs amount to \$13 million over the same period, along with a small amount of additional budget counterpart funding for the environment program of approximately \$ 0.25 million

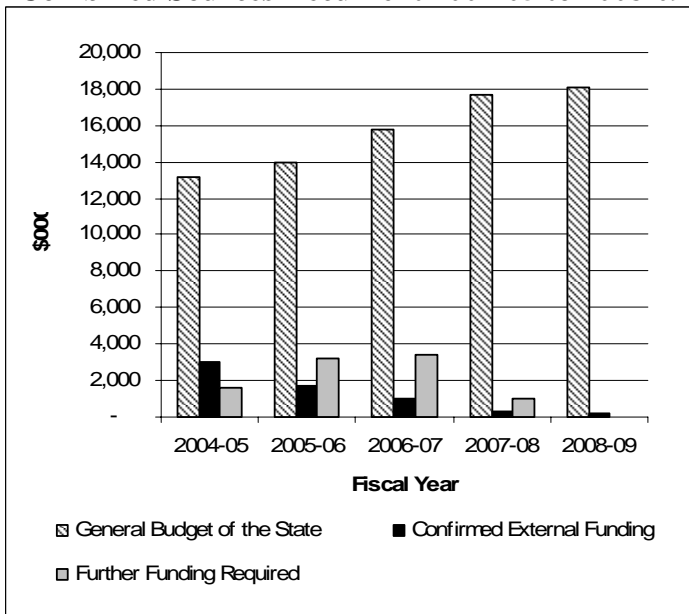
**Chart 6.73
Combined Sources Budget 2005-06**



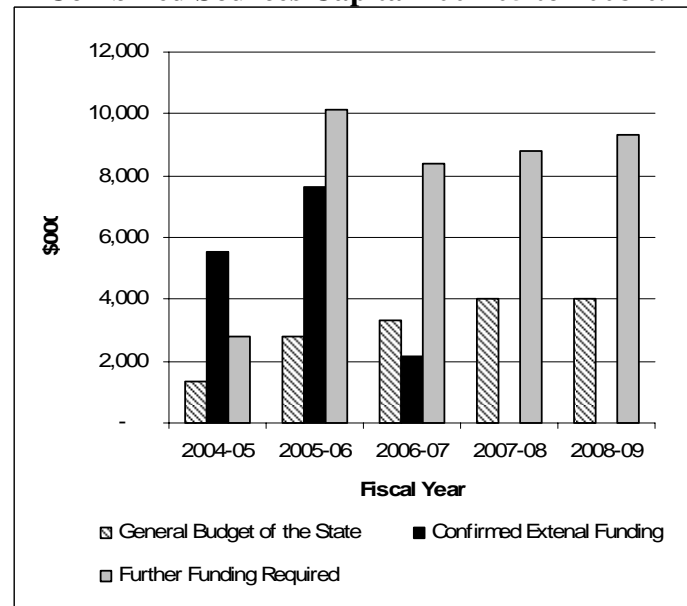
**Chart 6.74
External Assistance 2004-05 to 2008-09**



**Chart 6.75
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.76
Combined Sources Capital 2004-05 to 2008-09**



Secretary of State of Tourism and Environment

Table 6.29
Funding and Staffing Overview Secretary of State of Tourism and Environment
(\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	63	70	71	72	73	286
Goods and Services	97	97	137	137	152	523
Minor Capital	10	10	17	35	22	84
Total Recurrent Expenses	188	177	225	244	247	893
<i>Growth on Previous Year</i>		-5.9%	27.1%	8.4%	1.2%	39.5%
Total Capital and Development	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Total General Budget of the State	188	177	225	244	247	893
<i>Growth on Previous Year</i>		-5.9%	27.1%	8.4%	1.2%	39.5%
Confirmed Funds From Other Sources						
Recurrent Expenses	-	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Combined Sources Budget						
Recurrent Expenses	188	177	225	244	247	893
<i>Growth on Previous Year</i>		-5.9%	27.1%	8.4%	1.2%	39.5%
Capital Expenses	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Total Combined Sources Budget	188	177	225	244	247	893
<i>Growth on Previous Year</i>		-5.9%	27.1%	8.4%	1.2%	39.5%
Further Funding Required						
Recurrent Expenses	-	1,070	940	-	-	2,010
Capital Expenses	-	530	460	-	-	990
Total	-	1,600	1,400	-	-	3,000

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	0	1	8	14	3	4	0	30
Temporary	1	2	3	1	1	0	0	8
Total	1	3	11	15	4	4	0	38

THE ROLE OF THE MINISTRY OF TOURISM AND ENVIRONMENT AND INTEGRATION WITH THE SIPS

The role of the Ministry of Tourism and Environment is to establish a tourism industry which generates jobs and maintains local cultures and to protect and enhance the natural environment of Timor Leste.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

Over the next four years the Government is proposing to strengthen its environmental management capacity, and to develop sustainable tourism in Timor Leste.

Chart 6.77
Combined Sources Budget 2005-06

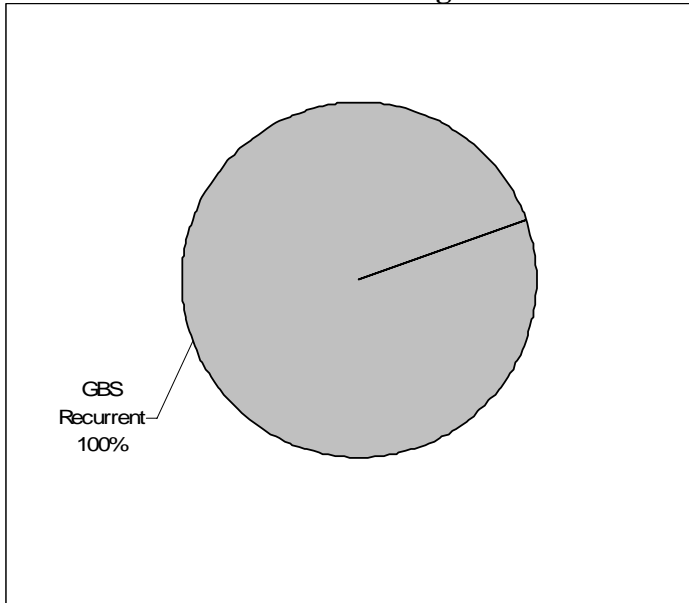


Chart 6.78
External Assistance 2004-05 to 2008-09

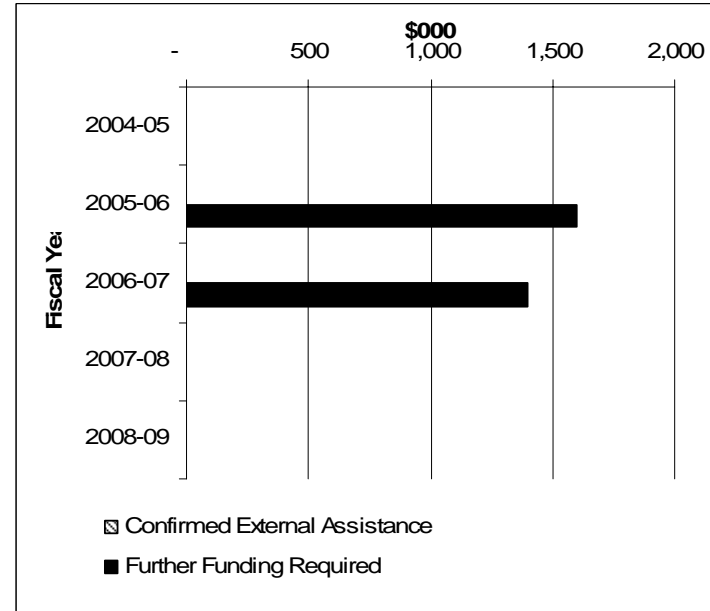


Chart 6.79
Combined Sources Recurrent 2004-05 to 2008-09

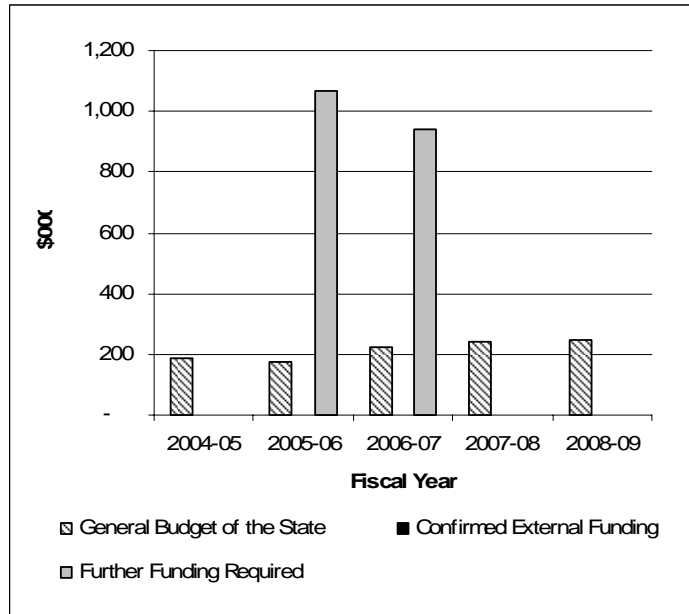
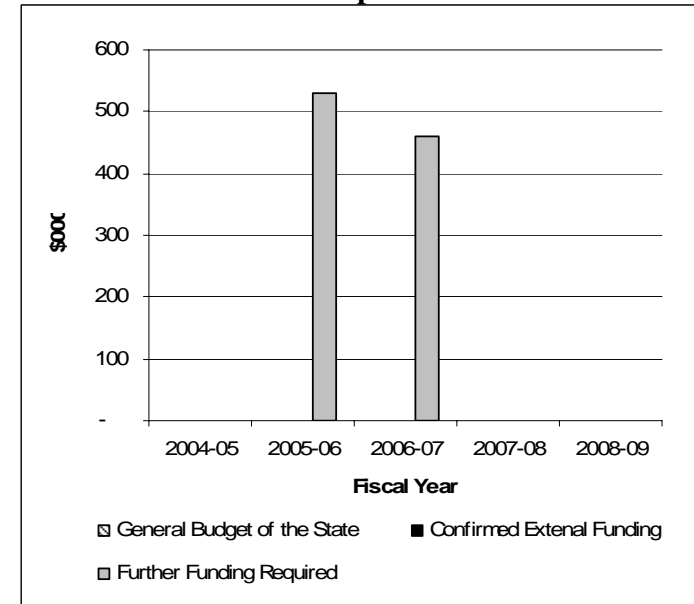


Chart 6.80
Combined Sources Capital 2004-05 to 2008-09



Ministry of Youth and Sport

Table 6.30
Funding and Staffing Overview Secretary of State for Youth and Sport (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	61	80	69	70	70	289
Goods and Services	122	161	156	160	176	653
Minor Capital	6	6	14	26	28	74
Total Recurrent Expenses	189	247	239	256	274	1,016
<i>Growth on Previous Year</i>		30.7%	-3.2%	7.1%	7.0%	10.9%
Total Capital and Development	-	183	-	-	-	183
<i>Growth on Previous Year</i>	0	na	na	na	na	na
Total General Budget of the State	189	430	239	256	274	1,199
<i>Growth on Previous Year</i>		127.5%	-44.4%	7.1%	7.0%	-36.3%
Confirmed Funds From Other Sources						
Recurrent Expenses	60	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	60	-	-	-	-	-
<i>Growth on Previous Year</i>	0	na	na	na	na	na
Combined Sources Budget						
Recurrent Expenses	249	247	239	256	274	1,016
<i>Growth on Previous Year</i>		-0.9%	-3.2%	7.1%	7.0%	10.9%
Capital Expenses	-	183	-	-	-	183
<i>Growth on Previous Year</i>	0	na	-100.0%	na	na	na
Total Combined Sources Budget	249	430	239	256	274	1,199
<i>Growth on Previous Year</i>		72.5%	-44.4%	7.1%	7.0%	-36.3%
Further Funding Required						
Recurrent Expenses	320	320	410	800	700	2,230
Capital Expenses	-	-	-	-	-	-
Total	320	320	410	800	700	2,230

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	0	0	4	27	3	1	0	35
Temporary	0	0	0	0	0	0	0	0
Total	0	0	4	27	3	1	0	35

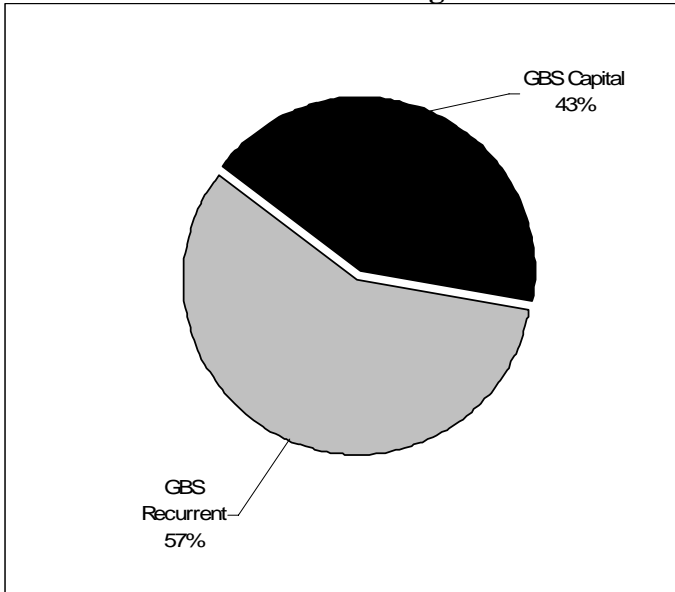
THE ROLE OF THE MINISTRY OF YOUTH AND SPORT AND INTEGRATION WITH THE SIPS

The role of the Ministry of Youth and Sport is to develop youth leadership; and support sporting activities.

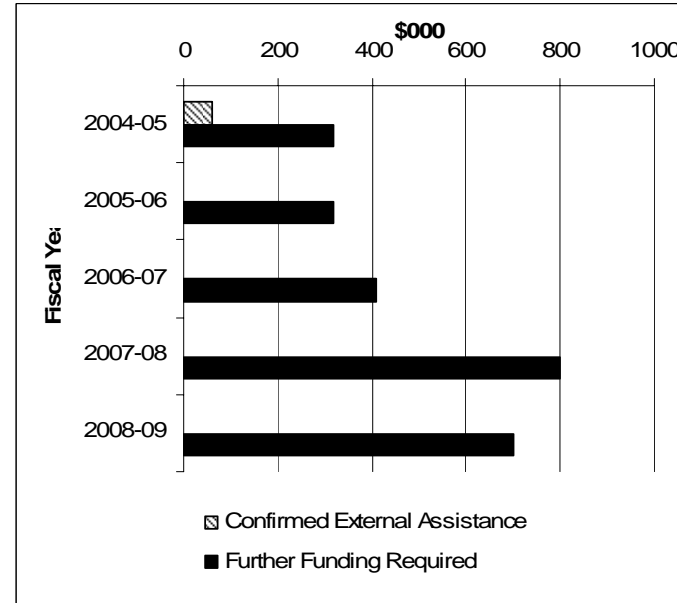
GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

Funding of \$103 will be provided to construct an office for the Sports division in 2005-06

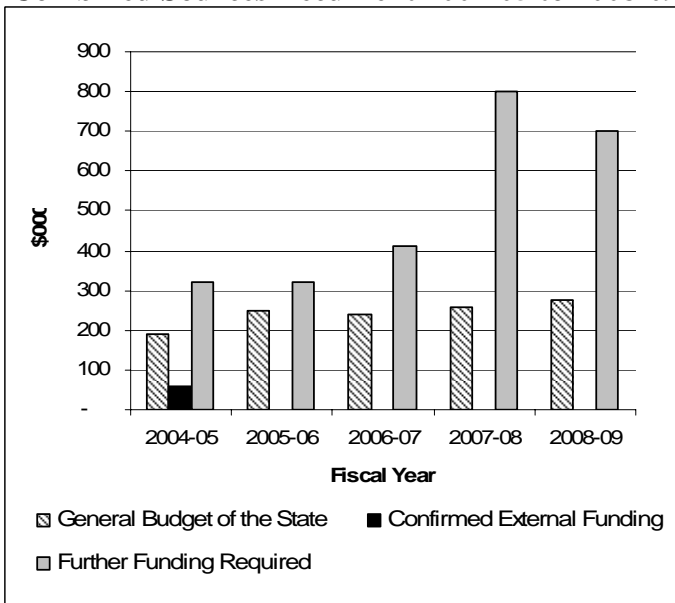
**Chart 6.81
Combined Sources Budget 2005-06**



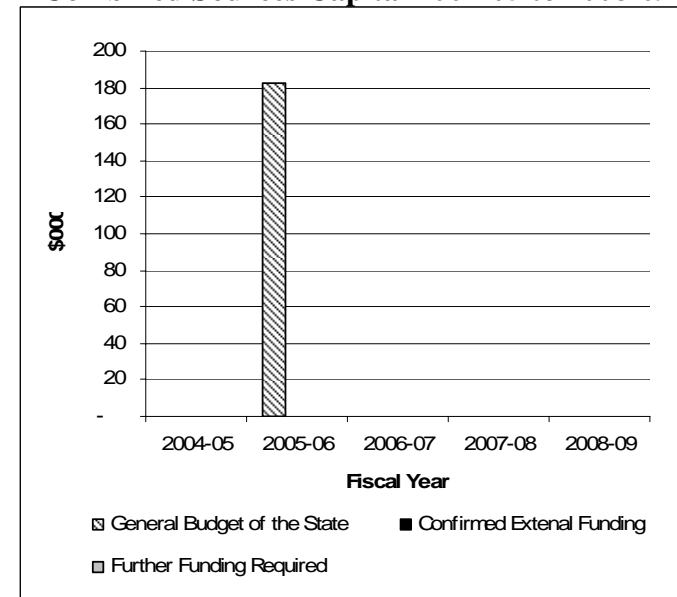
**Chart 6.82
External Assistance 2004-05 to 2008-09**



**Chart 6.83
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.84
Combined Sources Capital 2004-05 to 2008-09**



TRIBUNALS

**Table 6.31
Funding and Staffing Overview of the Judiciary (\$000)**

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	226	227	234	237	237	935
Goods and Services	117	209	217	220	220	866
Minor Capital	16	67	84	84	77	312
Total Recurrent Expenses	359	503	535	541	534	2,113
<i>Growth on Previous Year</i>		40.1%	6.4%	1.1%	-1.3%	6.2%
Total Capital and Development	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Total General Budget of the State	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Confirmed Funds From Other Sources						
Recurrent Expenses	353	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	353	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Combined Sources Budget						
Recurrent Expenses	712	503	535	541	534	2,113
<i>Growth on Previous Year</i>		-29.4%	6.4%	1.1%	-1.3%	6.2%
Capital Expenses	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Total Combined Sources Budget	712	503	535	541	534	2,113
<i>Growth on Previous Year</i>		-29.4%	6.4%	1.1%	-1.3%	6.2%
Further Funding Required						
Recurrent Expenses	1,988	1,961	2,026	2,045	745	6,777
Capital Expenses	73	99	34	15	15	163
Total	2,060	2,060	2,060	2,060	760	6,940

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	15	29	13	8	1	0	0	66
Temporary	0	0	1	0	0		30	31
Total	15	29	14	8	1	0	30	97

THE ROLE OF THE TRIBUNALS AND INTEGRATION WITH THE SIPS

The roles of the Tribunals are the sound and timely administration of justice; and the good management and discipline of justices. The activities of the Tribunals are contained in the SIP on "Rights, Equality and Justice".

Within the rights equality and justice sector the medium-term program for the judiciary aims to improve capacities for more effective delivery of justice to the population at large. The priority of the judiciary sub-sector is to strengthen the professional capacity of human resources within the judiciary as soon as possible. There is also a clear need for assistance in other areas of justice administration that are just as critical as the human resource expertise.

To ensure delivery of justice services and a reduction in the backlog of cases, the proposed program for the judiciary includes provision for the continued use of the services of international judges and other personnel from countries that practise civil law to work together with Timorese colleagues in teams in handling the workload while Timorese personnel are undertaking training.

The estimated cost of this support program is \$9 million for the five-year period ending 2008-09. By that time, training programs are expected to be producing sufficient numbers of qualified Timorese so that reliance on internationally recruited personnel can be phased out.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

The operational costs of the Tribunals will increase by \$116,000 in 2005-06, to expedite hearing the backlog of cases pending and for further development of their activities.

Chart 6.85
Combined Sources Budget 2005-06

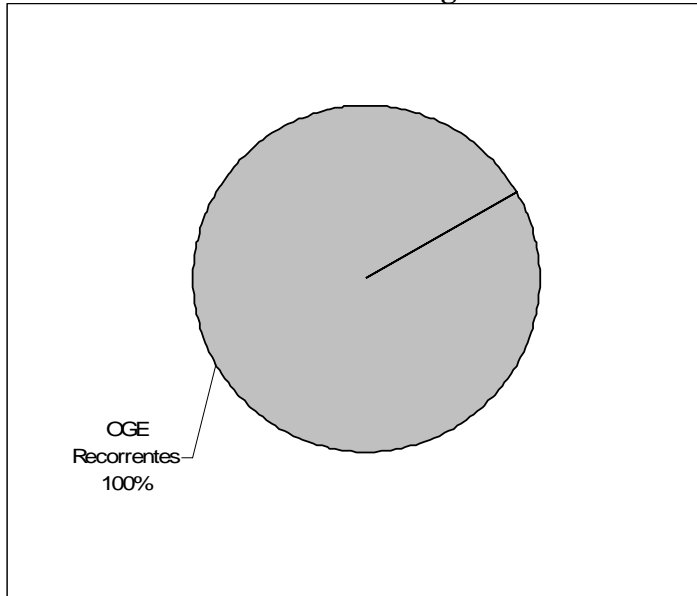


Chart 6.86
External Assistance 2004-05 to 2008-09

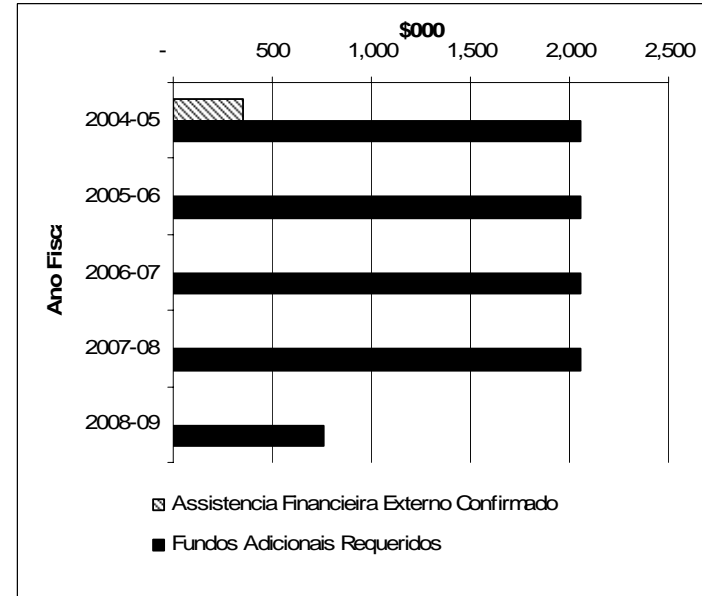


Chart 6.87
Combined Sources Recurrent 2004-05 to 2008-09

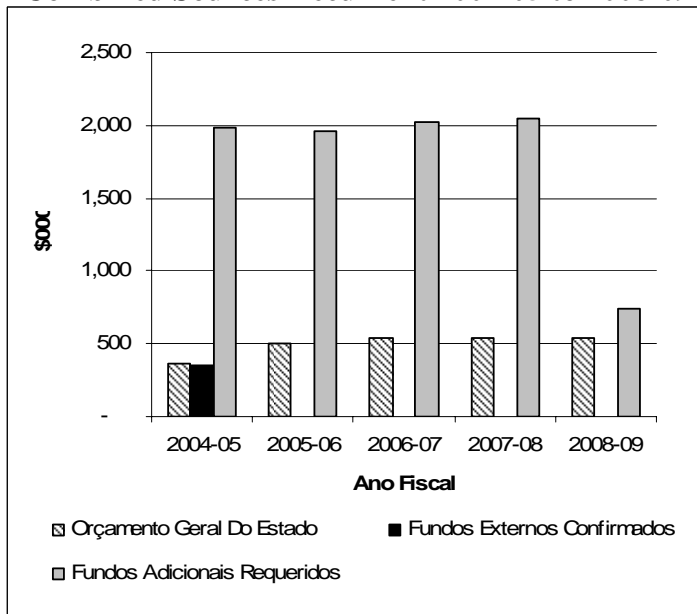
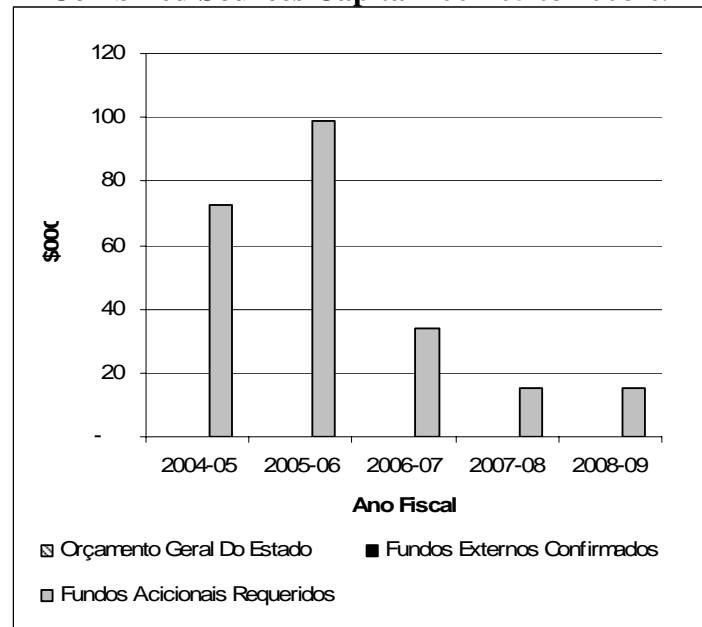


Chart 6.88
Combined Sources Capital 2004-05 to 2008-09



Banking and Payments Authority

Table 6.32
Funding and Staffing Overview of the Banking and Payments Authority (\$000)

General Budget of the State						
Recurrent Expenses						
Salary and Wages	-	-	-	-	-	-
Goods and Services	620	240	240	240	240	960
Minor Capital	-	-	-	-	-	-
Total Recurrent Expenses	620	240	240	240	240	960
<i>Growth on Previous Year</i>		-61.3%	0.0%	0.0%	0.0%	
Total Capital and Development						
	-	10,500	-	-	-	10,500
<i>Growth on Previous Year</i>			-100.0%	na		
Total General Budget of the State	620	10,740	240	240	240	11,460
<i>Growth on Previous Year</i>		1632.3%	-97.8%	0.0%	0.0%	
Confirmed Funds From Other Sources						
Recurrent Expenses	-	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Source	-	-	-	-	-	-
<i>Growth on Previous Year</i>						
Combined Sources Budget						
Recurrent Expenses	620	240	240	240	240	960
<i>Growth on Previous Year</i>		-61.3%	0.0%	0.0%	0.0%	0.0%
Capital Expenses	-	10,500	-	-	-	10,500
<i>Growth on Previous Year</i>		na	0.0%	0.0%		
Total Combined Sources Budget	620	10,740	240	240	240	11,460
<i>Growth on Previous Year</i>		na	-97.8%	0.0%	0.0%	-97.8%
Further Funding Required						
Recurrent Expenses	-	250	250	250	250	1,000
Capital Expenses	-	-	-	-	-	-
Total	-	250	250	250	250	1,000

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	3	6	19	21	13	4	1	67
Temporary	0	0	0	0	0	0	0	0
Total	3	6	19	21	13	4	1	67

BANKING AND PAYMENTS AUTHORITY

The role of the programme under the Banking and Payments Authority is to develop an efficient and viable financial sector and institutions and payment systems; and to provide Government with technical advice on economic policy.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

To build up the capital of the Authority, the Government will make injections of equity through three tranches of \$3.5 million each over the next three years, with the first tranche being paid in 2005-06. The amount of \$3.5 million is based on the deposits of the Authority.

Chart 6.89
Combined Sources Budget 2005-06

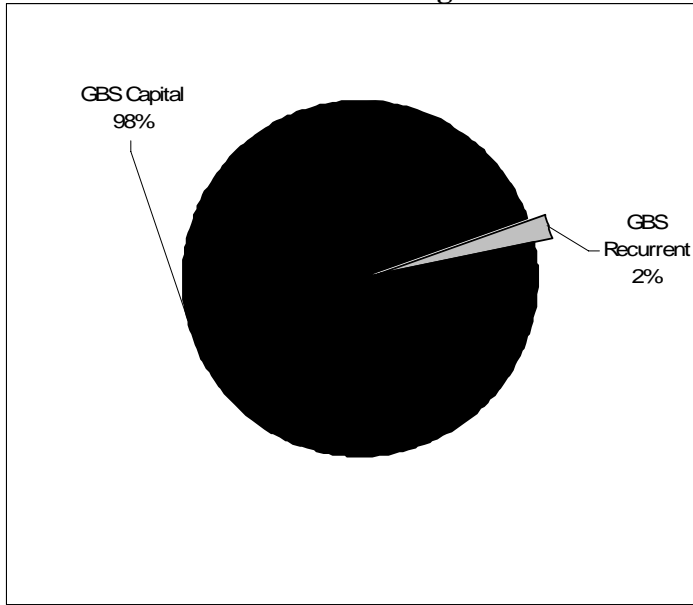


Chart 6.90
External Assistance 2004-05 to 2008-09

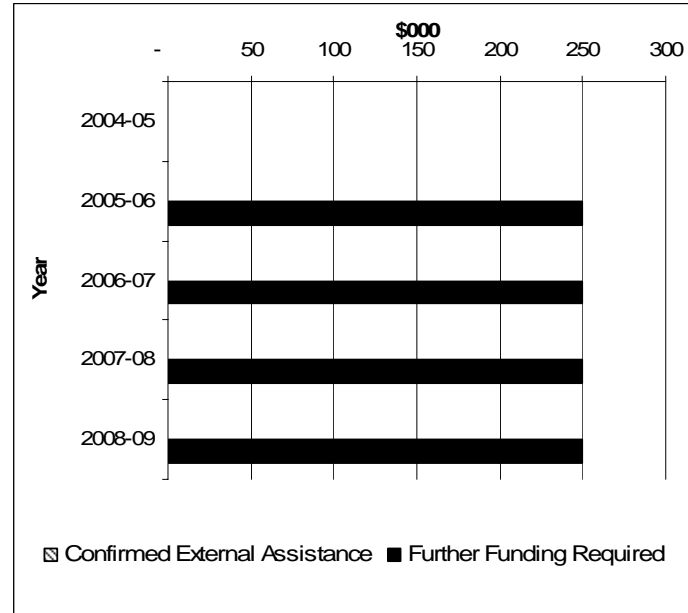


Chart 6.91
Combined Sources Recurrent 2004-05 to 2008-09

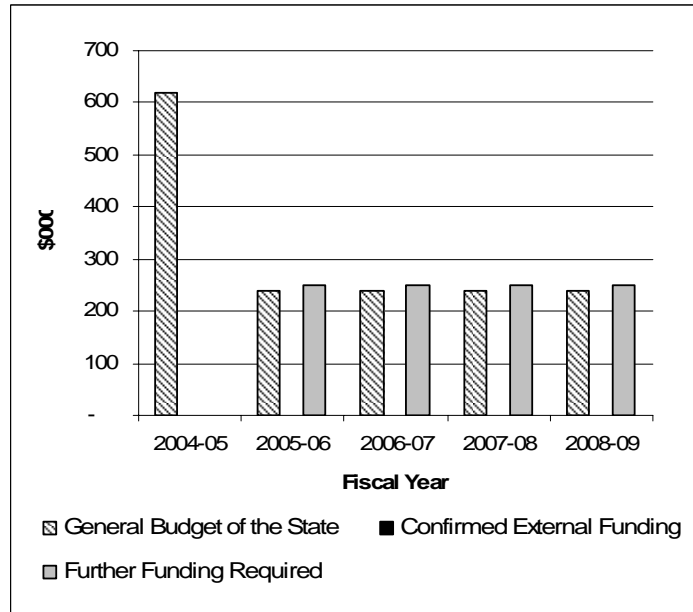
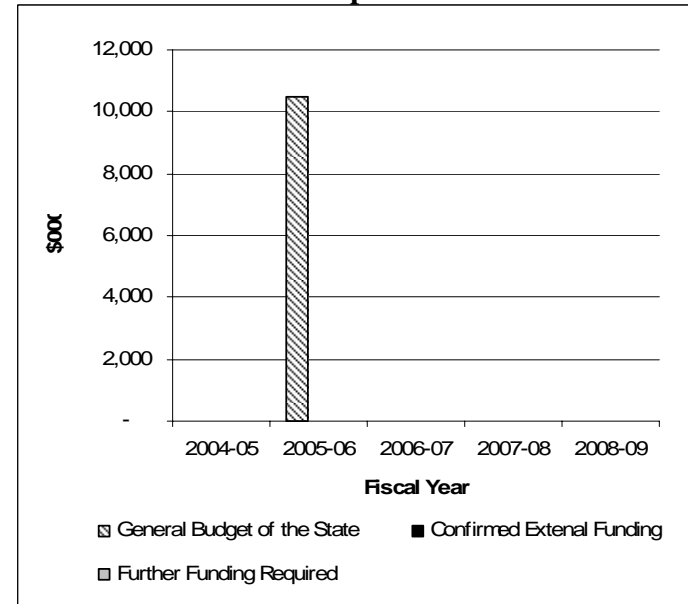


Chart 6.92
Combined Sources Capital 2004-05 to 2008-09



Public Broadcasting Service

Table 6.33
Funding and Staffing Overview Public Broadcasting Service (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	272	310	315	325	333	1,283
Goods and Services	78	516	593	657	781	2,547
Minor Capital	-	-	-	-	-	-
Total Recurrent Expenses	350	826	908	982	1,114	3,830
<i>Growth on Previous Year</i>		136.0%	9.9%	8.1%	13.4%	34.9%
Total Capital and Development	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Total General Budget of the State	350	826	908	982	1,114	3,830
<i>Growth on Previous Year</i>		136.0%	9.9%	8.1%	13.4%	34.9%
Confirmed Funds From Other Sources						
Recurrent Expenses	234	-	-	-	-	-
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	234	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Combined Sources Budget						
Recurrent Expenses	584	826	908	982	1,114	3,830
<i>Growth on Previous Year</i>		41.4%	9.9%	8.1%	13.4%	34.9%
Capital Expenses	-	-	-	-	-	-
<i>Growth on Previous Year</i>		na	na	na	na	na
Total Combined Sources Budget	584	826	908	982	1,114	3,830
<i>Growth on Previous Year</i>		41.4%	9.9%	8.1%	13.4%	34.9%
Further Funding Required						
Recurrent Expenses	-	186	341	348	394	1,268
Capital Expenses	652	904	642	638	170	2,354
Total	652	1,090	983	986	564	3,622

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	25	10	8	48	23	11	10	135
Temporary	0	0	0	0	0	0	0	0
Total	25	10	8	48	23	11	10	135

PUBLIC BROADCASTING SERVICE (PBS)

The role of the PBS is to provide public news and information and to develop a quality, sustainable media organisation that will serve the needs of the people of Timor-Leste. The objective is to promote the development of democracy and the improvement in the quality of life of the people.

The PBS has as its objective the provision of accurate, balanced and credible news that contributes to the development of democracy and the society of Timor-Leste. The PBS also aims to provide information that will contribute to the achievement of the National Development Plan by supporting and assisting in the provision of information to the Ministries, Government Agencies, NGOs, UN Agencies, and the other development partners.

In the particular case of the PBS, there is a need to invest in basic infrastructure that will lower operating costs, protect equipment and assets, and allow for the expansion of programming in support of the NDP that will be paid for by various, Ministries, Agencies and NGOs. The key programs for PBS over the medium-term are aimed at:

- Restructuring the organization to better meet the requirements set forth in the PBS Law, and to more directly assist in the activities designed to achieve the goals of the National Development Plan.

- Establishing a Community Education unit whose primary purpose is to assist government ministries, agencies, UN agencies, and NGOs with communication strategies, programs, and campaigns that target the goals and objectives of the National Development Plan.
- Reducing the damage being done to equipment by environmental and electrical conditions through capital investment in buildings, and transmission and electrical equipment.
- Improving the journalistic quality of the reporting of the PBS through on site training.
- Improving the reliability and expand the coverage of radio to ensure complete coverage of the population.
- Planning for expanded TV coverage to all Districts.

The operating deficit of the PBS is projected to rise as a result of the need to extend coverage and access throughout the country. Capital outlays for rehabilitation and new facilities and equipment needed to support this program are projected at \$3 million for the five-year period to 2008-09. Additional budget allocations are proposed to cover the operating deficit and allow PBS to sustain and improve its basic services. A proposed new donor program for the PBS in the amount of \$4.3 m would include support for training programs and funding for communications equipment, generators, computer systems and provision for repair and rehabilitation of facilities, including broadcast towers.

There has been about \$1.8 million of capital spending (two-thirds of which was funded by donors) on communications facilities that are owned and operated by the Government. These facilities especially those of PBS, are in a very poor state of repair and are in urgent need of replacement and upgrading. Under the proposed program, capital spending would rise to \$5.5 million, equivalent to 30 % of the entire communications sub-sector which would be covered by development partners.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

The Government funding for the PBS will increase by 136% in 2005-06 to \$826,000. The large increase reflects the need to compensate for the withdrawal from the PBS of donor funding.

Chart 6.93
Combined Sources Budget 2005-06

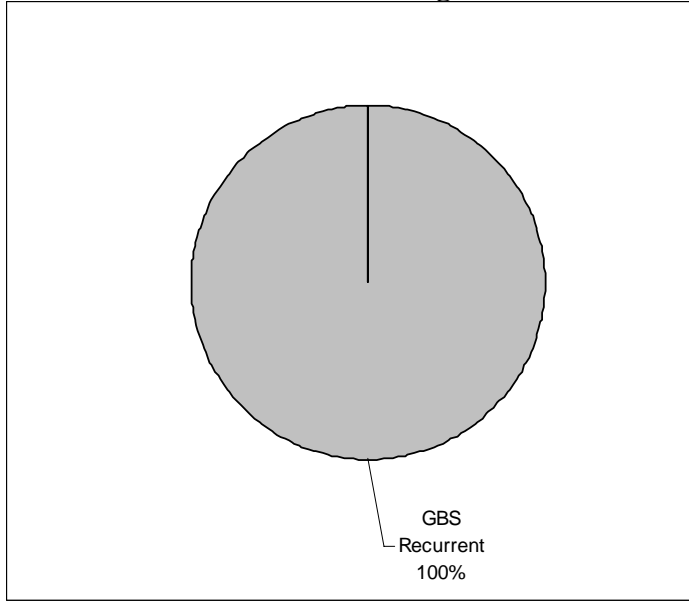


Chart 6.94
External Assistance 2004-05 to 2008-09

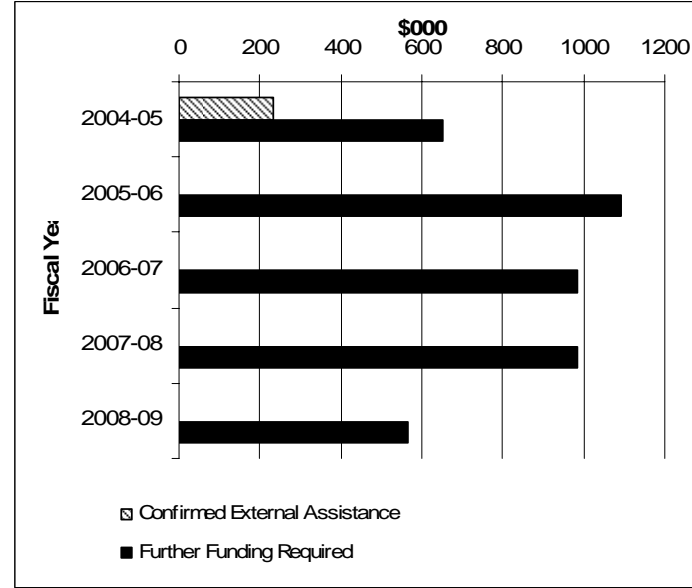


Chart 6.95
Combined Sources Recurrent 2004-05 to 2008-09

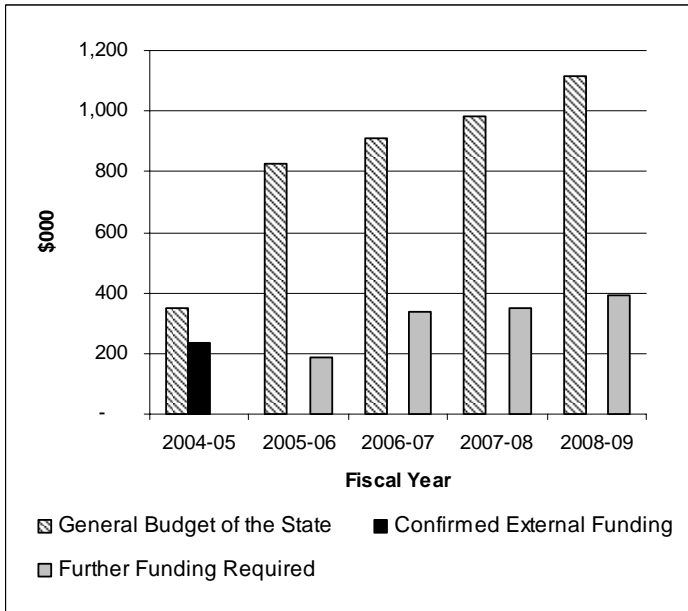
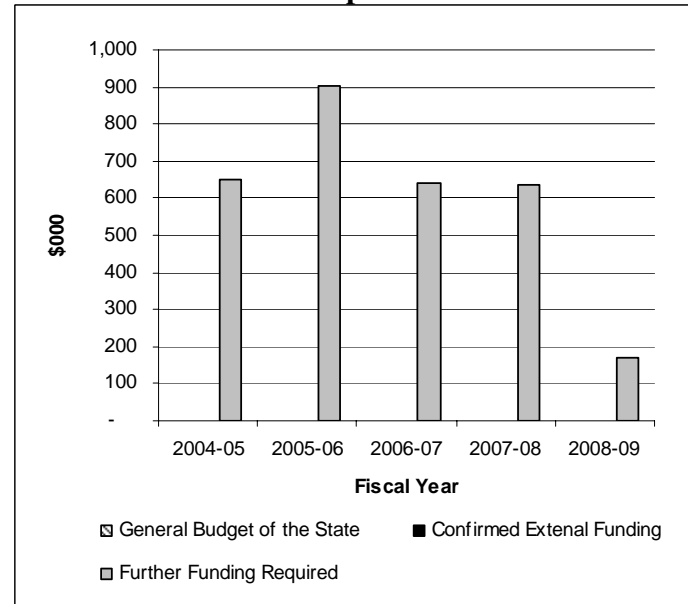


Chart 6.96
Combined Sources Capital 2004-05 to 2008-09



Providor of Human Rights

Table 6.34
Funding and Staffing Overview of the Providor of Human Rights (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	52	53	54	55	56	218
Goods and Services	19	20	23	24	25	92
Minor Capital	8	10	10	10	10	40
Total Recurrent Expenses	79	83	87	89	91	350
<i>Growth on Previous Year</i>		5.1%	4.8%	2.3%	2.2%	9.6%
Total Capital and Development	50	-	-	-	-	-
<i>Growth on Previous Year</i>		-100.0%	na	na	na	na
Total General Budget of the State	129	83	87	89	91	479
<i>Growth on Previous Year</i>		-35.7%	4.8%	2.3%	2.2%	9.6%
Confirmed Funds From Other Sources						
Recurrent Expenses	1,064	490	-	-	-	490
Capital Expenses	-	-	-	-	-	-
Total Confirmed Funds from Other Sources	1,064	490	-	-	-	490
<i>Growth on Previous Year</i>		-54.0%	-100.0%	na	na	-100.0%
Combined Sources Budget						
Recurrent Expenses	1,143	573	87	89	91	840
<i>Growth on Previous Year</i>		-49.9%	-84.8%	2.3%	2.2%	-84.1%
Capital Expenses	50	-	-	-	-	-
<i>Growth on Previous Year</i>		-100.0%	na	na	na	na
Total Combined Sources Budget	1,193	573	87	89	91	840
<i>Growth on Previous Year</i>		-52.0%	-84.8%	2.3%	2.2%	-84.1%
Further Funding Required						
Recurrent Expenses	125	625	777	650	600	2,652
Capital Expenses	-	-	-	-	-	-
Total	125	625	777	650	600	2,652

	L1	L2	L3	L4	L5	L6	L7	Total
Permanent	0	0	1	5	2	3	0	11
Temporary	2	2	0	0	0	0	0	4
Total	2	2	1	5	2	3	0	15

ROLE OF PROVIDOR OF HUMAN RIGHTS AND JUSTICE AND INTEGRATION WITH THE SIPS

The role of this agency is consistent with preparing plans for the establishment of investigations and inspections of operational activities of the Government with a role of promoting human rights, good governance and Justice.

GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

This agency was made an independent organ of state relative to its previous association with the Office of the Prime Minister. The agency is planning to recruit new staff in 2005-06 and 2006-07 as soon as the Providor is nominated by the National Parliament.

Chart 6.97
Combined Sources Budget 2005-06

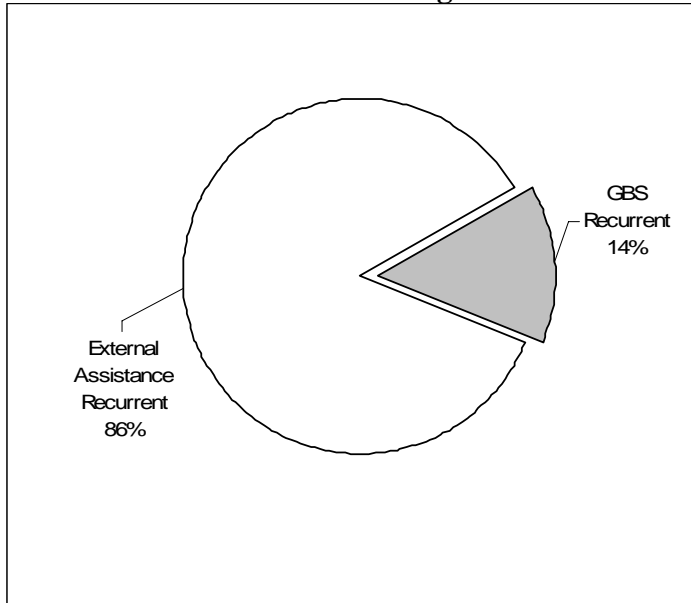


Chart 6.98
External Assistance 2004-05 to 2008-09

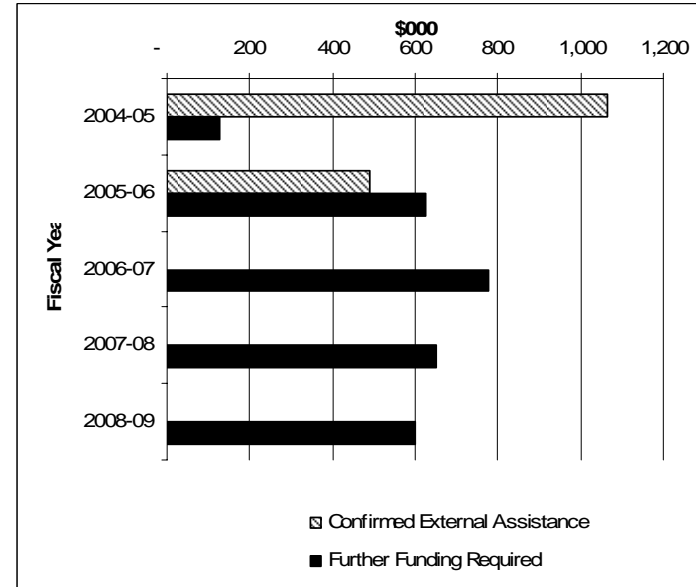


Chart 6.99
Combined Sources Recurrent 2004-05 to 2008-09

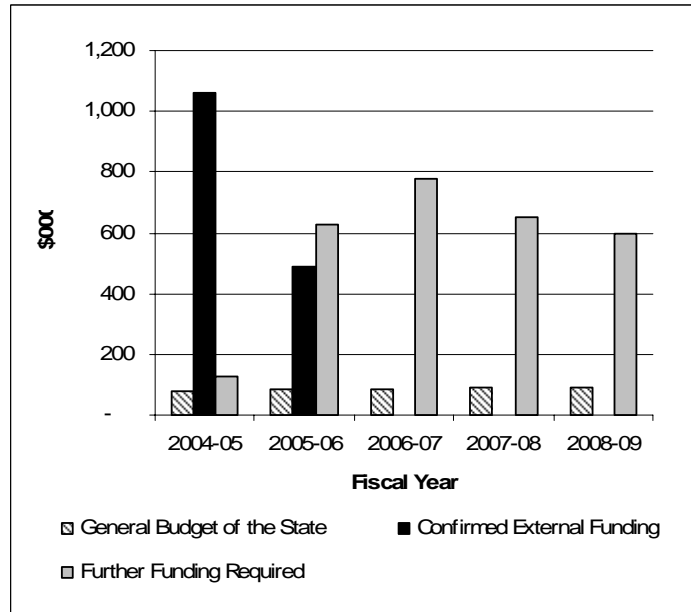
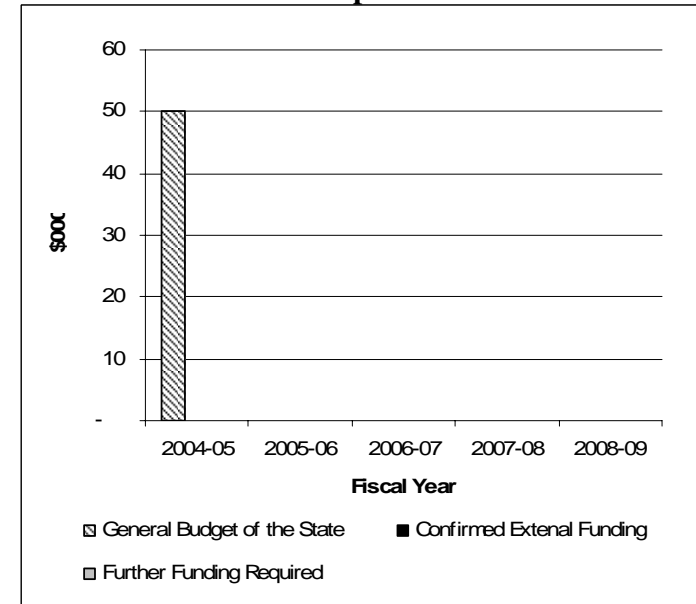


Chart 6.100
Combined Sources Capital 2004-05 to 2008-09



Electricidade de Timor-Leste (EDTL) (Self Funded)

Table 6.35
Funding and Staffing Overview of Electricidade de Timor-Leste (Self Funded) (\$000)

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	33	36	40	45	50	171
Goods and Services	6,026	7,496	9,418	11,538	12,141	40,593
Minor Capital	71	197	435	568	602	1,802
Total Recurrent Expenses	6,130	7,729	9,893	12,151	12,793	42,566
<i>Growth on Previous Year</i>	0	26.1%	28.0%	22.8%	5.3%	65.5%
Total Capital and Development	320	1,000	1,500	2,000	2,000	6,500
<i>Growth on Previous Year</i>	0	212.5%	50.0%	33.3%	0.0%	100.0%
Total General Budget of the State	6,450	8,729	11,393	14,151	14,793	49,066
<i>Growth on Previous Year</i>	0	35.3%	30.5%	24.2%	4.5%	69.5%
Confirmed Funds From Other Sources						
Recurrent Expenses	1,175	275	-	-	-	275
Capital Expenses	9,310	-	-	-	-	-
Total Confirmed Funds from Other Sources	10,485	275	-	-	-	275
<i>Growth on Previous Year</i>	0	-97.4%	-100.0%			
Combined Sources Budget	0	0	0	0	0	
Recurrent Expenses	7,305	8,004	9,893	12,151	12,793	42,841
<i>Growth on Previous Year</i>	0	9.6%	23.6%	22.8%	5.3%	59.8%
Capital Expenses	9,630	1,000	1,500	2,000	2,000	6,500
<i>Growth on Previous Year</i>	0	-89.6%	50.0%	33.3%	0.0%	100.0%
Total Combined Sources Budget	16,935	9,004	11,393	14,151	14,793	49,341
<i>Growth on Previous Year</i>	0	-46.8%	26.5%	24.2%	4.5%	64.3%
	0	0.0%	0.0%	0.0%	0.0%	
Further Funding Required	0	0	0	0	0	
Recurrent Expenses	150	-	-	-	-	-
Capital Expenses	1,200	13,325	36,700	47,700	31,400	129,125
Total	1,350	13,325	36,700	47,700	31,400	129,125

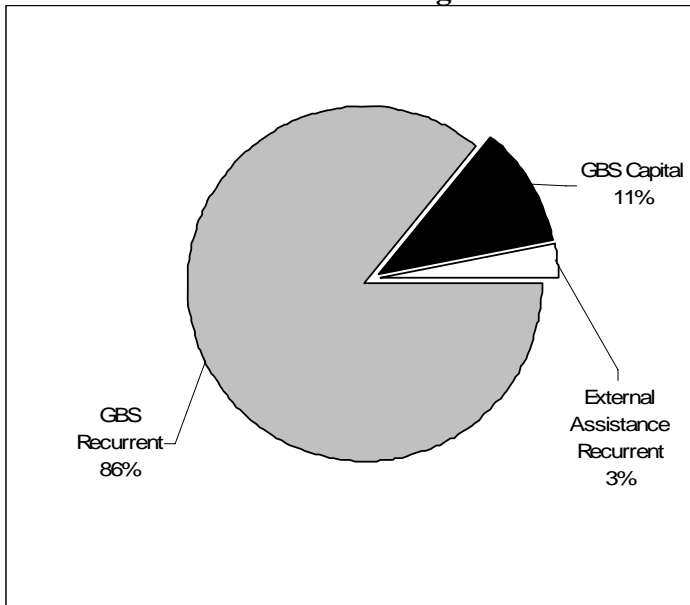
ROLE OF ELECTRICITY OF TIMOR LESTE (EDTL) AND INTEGRATION WITH SIPS

The role of the EDTL is to ensure a reliable and adequate supply of electricity adequate to meet demand. The activities of the EDTL are covered in the SIP on "Power".

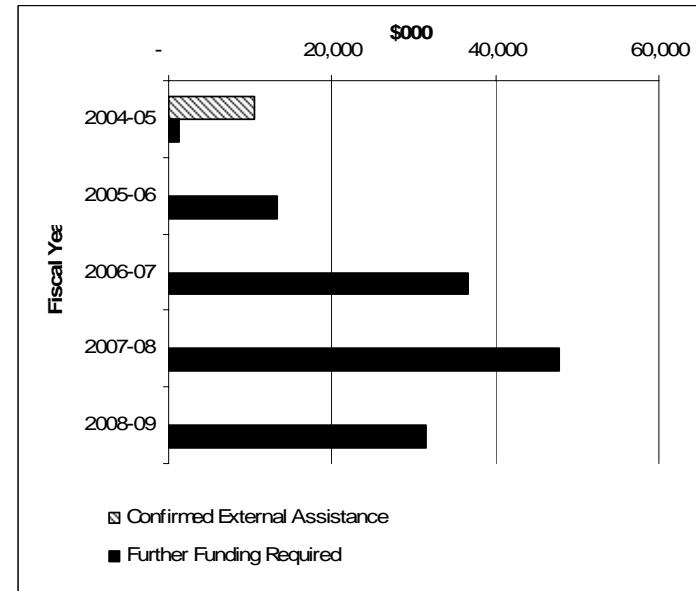
GENERAL BUDGET OF THE STATE INITIATIVES IN 2005-06

Substantial capital improvements are scheduled for 2005-06 (\$700,000) and subsequent years to improve reliability and meet demand.

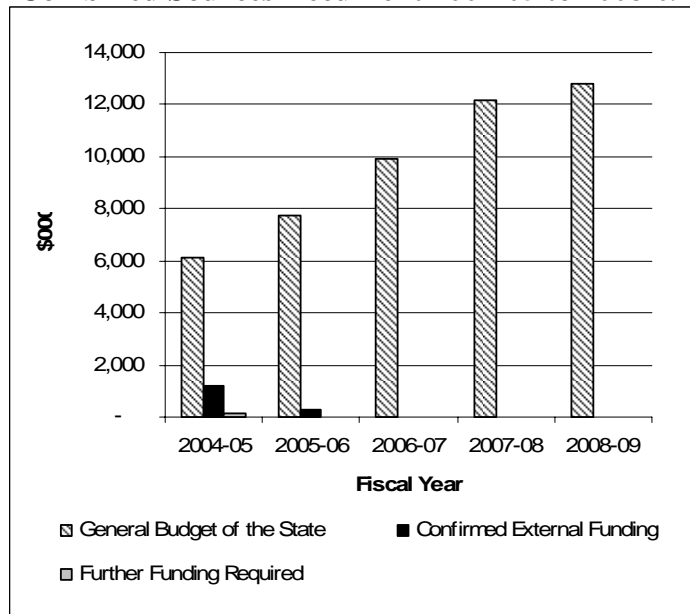
**Chart 6.101
Combined Sources Budget 2005-06**



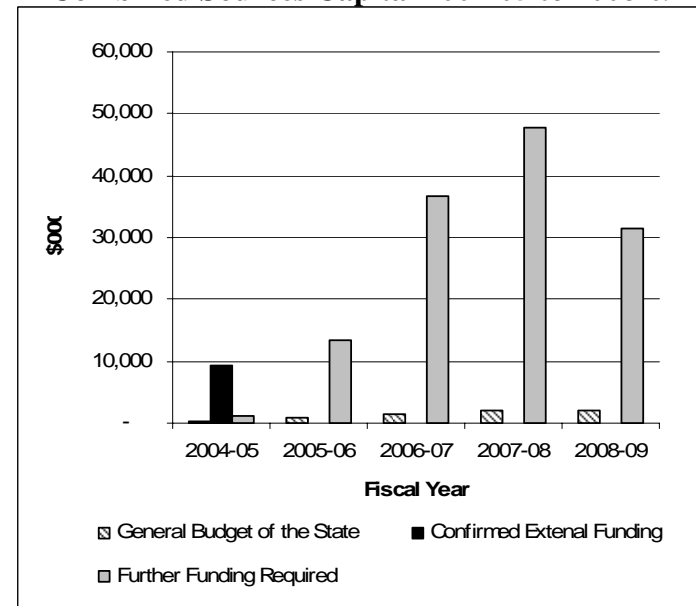
**Chart 6.102
External Assistance 2004-05 to 2008-09**



**Chart 6.103
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.104
Combined Sources Capital 2004-05 to 2008-09**

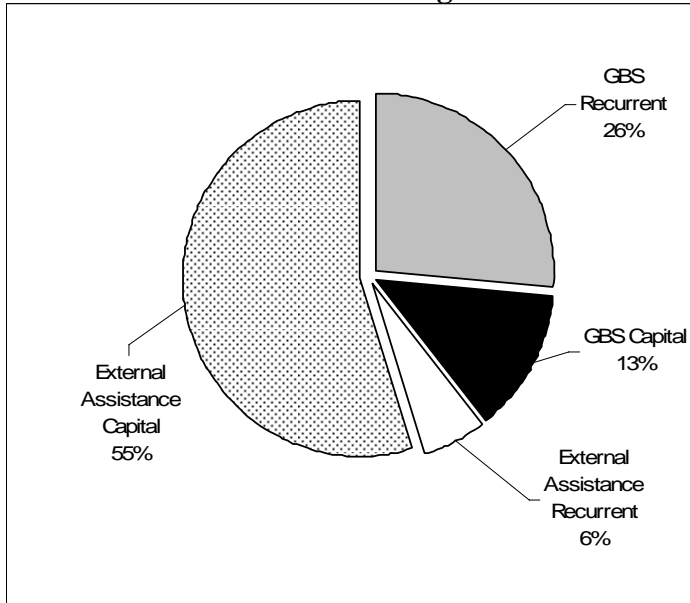


Other Self Funded

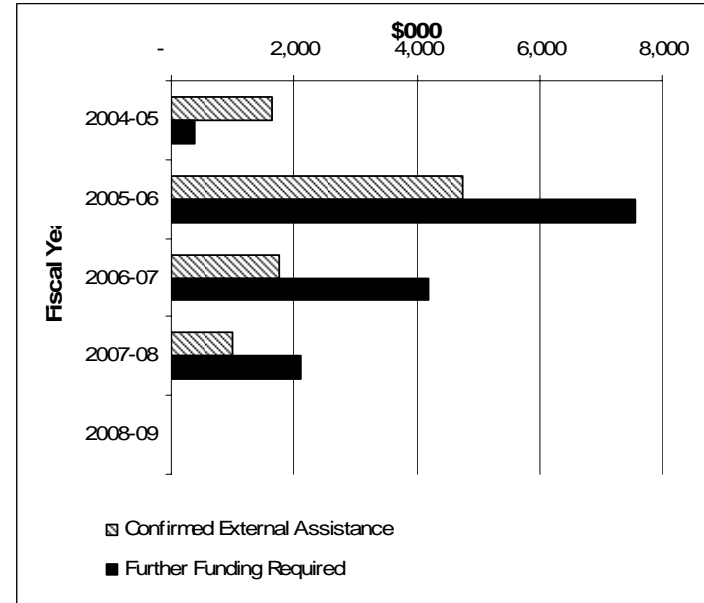
**Table 6.36
Funding and Staffing Overview of Other Self Funded Agencies (\$000)**

	2004-05	2005-06	2006-07	2007-08	2008-09	Total 4 Years
General Budget of the State						
Recurrent Expenses						
Salary and Wages	327	308	310	310	320	1,248
Goods and Services	1,035	1,480	2,087	2,038	2,125	7,730
Minor Capital	256	285	275	185	187	932
Total Recurrent Expenses	1,618	2,073	2,672	2,533	2,632	9,910
<i>Growth on Previous Year</i>		28.1%	28.9%	-5.2%	3.9%	27.0%
Total Capital and Development	423	1,044	450	500	500	2,494
<i>Growth on Previous Year</i>		146.8%	-56.9%	11.1%	0.0%	-52.1%
Total General Budget of the State	2,041	3,117	3,122	3,033	3,132	12,404
<i>Growth on Previous Year</i>		52.7%	0.2%	-2.9%	3.3%	0.5%
Confirmed Funds From Other Sources						
Recurrent Expenses	610	450	250	-	-	700
Capital Expenses	1,044	4,309	1,500	1,000	-	6,809
Total Confirmed Funds from Other Sources	1,654	4,759	1,750	1,000	-	7,509
<i>Growth on Previous Year</i>		187.7%	-63.2%	-42.9%	-100.0%	-100.0%
Combined Sources Budget						
Recurrent Expenses	2,228	2,523	2,922	2,533	2,632	10,610
<i>Growth on Previous Year</i>		13.2%	15.8%	-13.3%	3.9%	4.3%
Capital Expenses	1,467	5,353	1,950	1,500	500	9,303
<i>Growth on Previous Year</i>		264.9%	-63.6%	-23.1%	-66.7%	-90.7%
Total Combined Sources Budget	3,695	7,876	4,872	4,033	3,132	19,913
<i>Growth on Previous Year</i>		113.1%	-38.1%	-17.2%	-22.3%	-60.2%
Further Funding Required						
Recurrent Expenses	370	830	100	-	-	930
Capital Expenses	-	6,740	4,100	2,110	-	12,950
Total	370	7,570	4,200	2,110	-	13,880

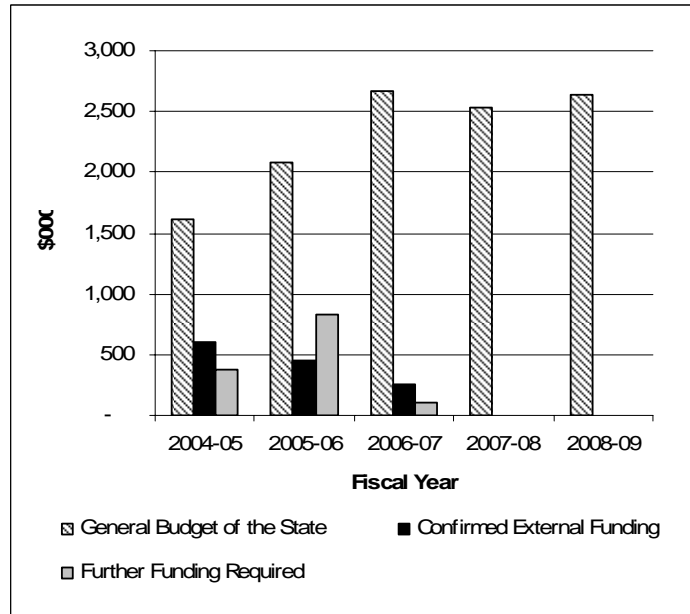
**Chart 6.105
Combined Sources Budget 2005-06**



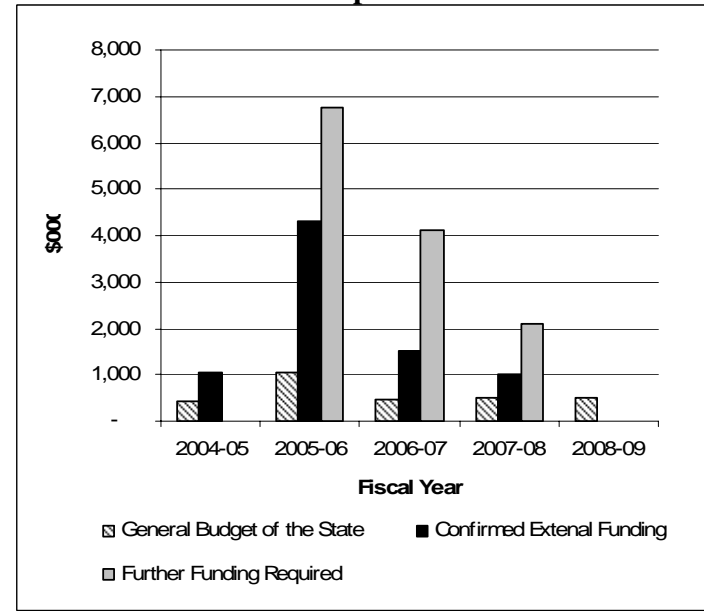
**Chart 6.106
External Assistance 2004-05 to 2008-09**



**Chart 6.107
Combined Sources Recurrent 2004-05 to 2008-09**



**Chart 6.108
Combined Sources Capital 2004-05 to 2008-09**



ANNEX 1 GENERAL BUDGET OF THE STATE (INCLUDING AUTONOMOUS AGENCIES)

	FY 04/05	FY 05/06	FY 06/07	FY 07/08	FY 08/09	4 Year Total
Expenditure	86,962	129,185	118,453	126,696	124,988	499,322
Salaries and Wages	28,538	29,289	31,627	32,696	33,920	127,532
Salary	28,368	29,055	31,357	32,388	33,601	126,401
Overtime/Allowance	170	234	270	308	319	1,131
Goods and Services	46,544	57,927	60,984	63,691	64,924	247,526
Local Travel	817	1,028	1,160	1,220	1,311	4,719
Overseas Travel	1,313	1,023	1,091	1,143	1,186	4,443
Training and Workshop	1,078	1,618	1,760	1,840	1,607	6,825
Utilities	2,692	3,210	3,484	3,605	3,711	14,010
Rental of Property	586	650	668	699	737	2,754
Vehicle Operation Fuel	1,763	2,302	2,844	2,955	3,086	11,187
Vehicle Maintenance	2,494	2,948	3,520	3,796	3,930	14,194
Vehicle Rental, Insurance and Services	55	114	134	144	151	543
Office Stationary and Supplies	1,159	1,261	1,456	1,536	1,637	5,890
Operational Material and Supplies	6,536	7,164	9,439	9,878	10,009	36,490
Fuel for Generators	9,725	10,234	10,962	12,870	13,128	47,194
Maintenance of Equipment and Buildings	3,931	4,646	4,296	4,696	4,897	18,535
Operational Expenses	2,830	4,367	4,641	4,781	4,712	18,501
Professional Services	4,411	6,416	6,356	6,454	6,277	25,503
Translation Services	250	250	320	338	378	1,286
Other Miscellaneous Services	6,794	10,496	8,653	7,536	7,967	34,652
Payments of Memberships	110	200	200	200	200	800
Minor Capital	2,443	5,414	4,802	4,647	5,225	20,088
Security Equipment	185	152	147	109	156	564
EDP Equipment	181	148	395	477	514	1,534
Communication Equipment	289	744	368	337	299	1,748
Generators	57	93	307	354	372	1,126
Water Equipment	200	359	288	297	314	1,258
Office Equipment	235	420	630	696	733	2,479
Other Misc. Equipment	707	1,383	936	861	893	4,073
Furniture and Fitting	402	603	809	1,012	1,425	3,849
Purchase Vehicle	187	1,512	922	504	519	3,457
Capital and Development	9,437	36,555	21,040	25,662	20,919	104,176
Acquisition of Building	0	4,531	2,667	1,492	1,494	10,184
Infrastructure Assets	9,437	21,524	18,373	24,170	19,425	83,492
Injection of Capital	0	10,500	0	0	0	10,500
Vehicle Operations	4,312	5,364	6,498	6,895	7,167	25,924
Miscellaneous Services	11,455	17,162	15,329	14,328	14,622	61,441

ANNEX 2 GENERAL BUDGET OF THE STATE (EXCLUDING AUTONOMOUS AGENCIES)

	FY 04/05	FY 05/06	FY 06/07	FY 07/08	FY 08/09	4 Year Total
Expenditure	78,694	117,541	104,138	109,512	107,063	438,254
Salaries and Wages	28,250	28,945	31,277	32,341	33,550	126,113
Salary	28,140	28,795	31,096	32,127	33,340	125,358
Overtime/Allowance	110	150	181	214	210	755
Goods and Services	39,739	48,951	49,479	50,115	50,658	199,203
Local Travel	793	994	1,116	1,170	1,254	4,534
Overseas Travel	1,268	969	1,021	1,068	1,106	4,164
Training and Workshop	963	1,523	1,650	1,720	1,482	6,375
Utilities	2,460	2,974	3,279	3,395	3,491	13,139
Rental of Property	586	650	668	699	737	2,754
Vehicle Operation Fuel	1,679	2,157	2,383	2,480	2,575	9,595
Vehicle Maintenance	2,369	2,736	2,945	3,208	3,314	12,203
Vehicle Rental, Insurance and Services	47	108	119	124	130	481
Office Stationary and Supplies	1,128	1,226	1,413	1,489	1,585	5,713
Operational Material and Supplies	6,401	7,024	9,244	9,713	9,838	35,819
Fuel for Generators	5,451	4,213	2,936	2,839	2,591	12,579
Maintenance of Equipment and Buildings	3,130	4,238	4,147	4,553	4,748	17,686
Operational Expenses	2,657	4,195	4,449	4,586	4,509	17,739
Professional Services	3,572	5,348	5,135	5,170	4,940	20,593
Translation Services	245	242	304	317	351	1,214
Other Miscellaneous Services	6,880	10,154	8,470	7,384	7,807	33,815
Payments of Memberships	110	200	200	200	200	800
Minor Capital	2,121	4,982	4,092	3,894	4,436	17,406
Security Equipment	125	140	127	84	126	477
EDP Equipment	148	133	360	429	462	1,384
Communication Equipment	242	701	303	267	224	1,495
Generators	45	61	105	102	119	387
Water Equipment	195	354	273	277	289	1,193
Office Equipment	205	378	595	656	688	2,317
Other Misc. Equipment	624	1,092	748	768	795	3,403
Furniture and Fitting	369	591	789	987	1,394	3,761
Purchase Vehicle	168	1,482	792	324	339	2,937
Capital and Development	8,694	34,661	19,290	23,162	18,419	95,532
Acquisition of Building	0	0	0	0	0	0
Infrastructure Assets	8,694	24,161	19,290	23,162	18,419	85,032
Injection of Capital	0	10,500	0	0	0	10,500
Vehicle Operations	4,095	5,001	5,447	5,812	6,019	22,279
Miscellaneous Services	10,697	15,744	13,909	12,871	13,098	55,622

ANNEX 3 CAPITAL AND DEVELOPMENT PLAN FOR TIMOR-LESTE

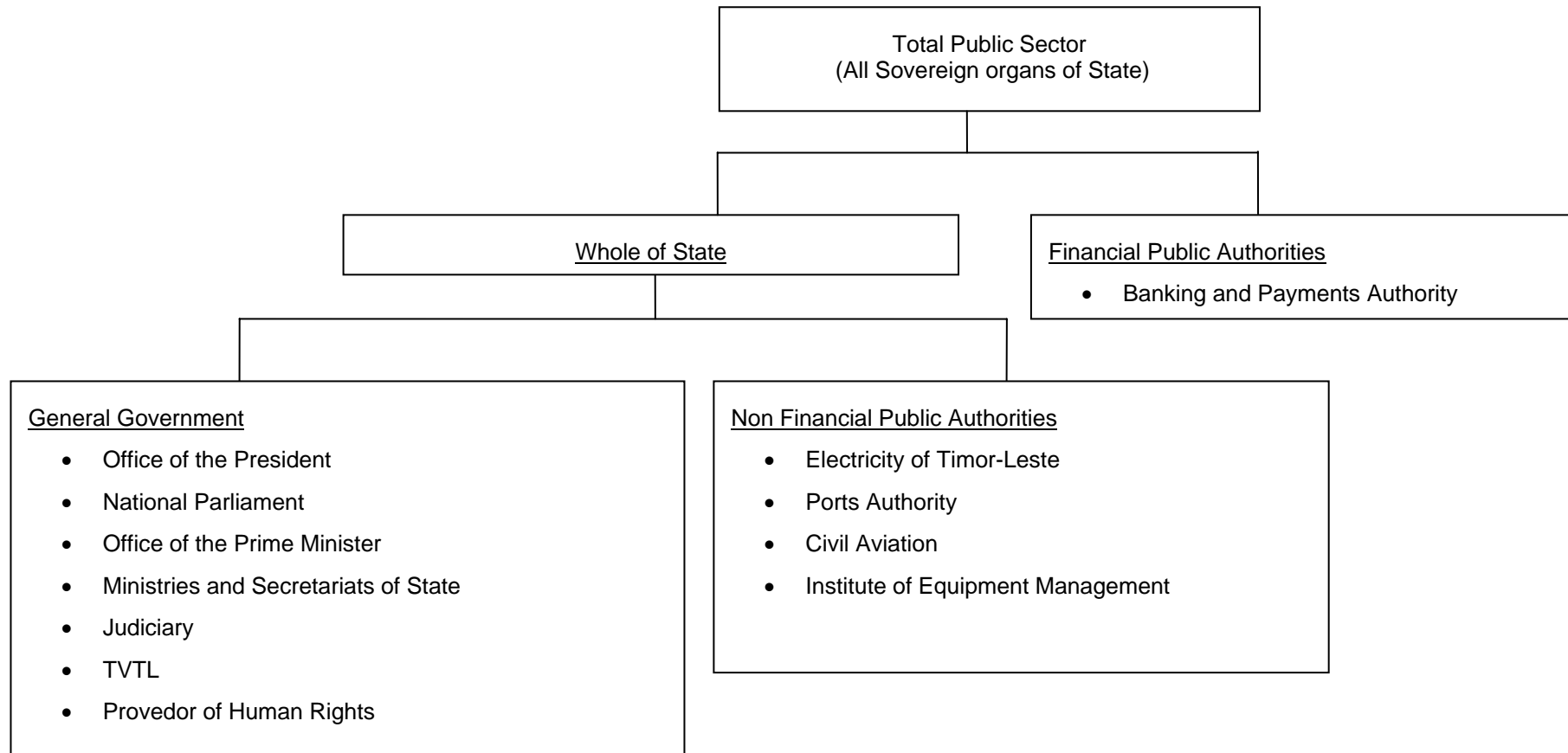
	2005-06	2006-07	2007-08	2008-09	Total 4 Anos
Total	36,705	21,240	25,662	20,919	104,526
Capital Works to Improve the Parliament Building	113	-	-	-	113
Construction of the Government Conference Centre	2,000	-	-	-	2,000
Integrated Communications System	1,600	-	-	-	1,600
New Administration Office	45	-	-	-	45
National Directorate for Administration of the Territory	-	100	120	130	350
Sub District Administration Office Sami (District of Manufahi)	26	-	-	-	26
Sub District Administration Office Liquiça (District of Liquiça)	26	-	-	-	26
Sub District Administration Office Suai (District of Cova Lima)	26	-	-	-	26
Sub District Administration Office Fohorem (District of Cova Lima)	26	-	-	-	26
Sub District Administration Office Ainaro (District of Ainaro)	26	-	-	-	26
Sub District Administration Office de Baucau (District of Baucau)	26	-	-	-	26
Sub District Administration Office Dom Eleixo (District of Dili)	26	-	-	-	26
Sub District Administration Office Metinaro (District of Dili)	26	-	-	-	26
Sub District Administration Office Nain Feto (District of Dili)	26	-	-	-	26
Sub District Administration Office Los Palos (District of Lautem)	26	-	-	-	26
Sub District Administration Office Natarbora (District of Manatuto)	26	-	-	-	26
Garage and Warehouse in Bobonaro	12	-	-	-	12
Rehabilitation of National Printing Office	400	-	-	-	400
Local Development Fund fo 6 Sub Districts in Bobonaro	192	526	526	526	1,770
Rehabilitation of Civil Protection Building	40	-	-	-	40
Direcção Nacional de Segurança de Edifícios e Acreditações	-	-	-	-	-
Rehabilitation of Building in Caicoli	40	20	20	20	100
Academia da Polícia	-	-	-	-	-
Firing Range for Police Academy	20	20	-	-	40
Rehabilitation of PNTL Station in Dili	31	-	-	-	31
Rehabilitation of PNTL Stations in 4 Districts	130	270	-	-	400
PNTL-UIR	-	15	15	-	30
Reconstruction of the Notary Building	650	-	-	-	650
Construction of Land and Property Offices	315	-	-	-	315
Construction of Office for the Prosecutor General	500	-	-	-	500
Rehabilitation of Agriculture Office	130	250	-	-	380
Direcção Nacional dos Serviços de Pesquisa e Extensão	-	-	150	200	350
Reabilitação do Laboratório de Pesquisa e Extensão	50	-	-	-	50
Rehabilitation and Maintenance of Irrigation	250	350	385	400	1,385

	2005-06	2006-07	2007-08	2008-09	Total 4 Anos
Rehabilitation of Quarantine Office (Suai - Díli)	40	20	20	60	140
Rehabilitation of Agricultural Schools	100	200	250	250	800
Primary Schools	-	800	1,000	200	2,000
Rehabilitation of Primary School Metinaro	100	-	-	-	100
Rehabilitation of Primary School ILallai Laivai Lospalos	60	-	-	-	60
Rehabilitation of Primary School Iradarat Lospalos	60	-	-	-	60
Rehabilitation of Primary School 30 de Agosto Fuloro	60	-	-	-	60
Rehabilitation of Primary School Mehara Lospalos	60	-	-	-	60
Rehabilitation of Primary School Laisorlai de cima Quelekai	100	-	-	-	100
Rehabilitation of Primary School Samalari Quelekai	100	-	-	-	100
Rehabilitation of Primary School Abu Laga	60	-	-	-	60
Pre Secondary Schools	-	463	520	610	1,593
Rehabilitation of Pre Secondary School Beco Cova Lima	20	-	-	-	20
Rehabilitation of Pre Secondary School Fatumea Covalima	35	-	-	-	35
Construction of Pre Secondary School 10 de Dezembro Comoro Díli	20	-	-	-	20
Construction of Pre Secondary School no 3 Becora Díli	25	-	-	-	25
Rehabilitation of Pre Secondary School Lay doe Laleia	30	-	-	-	30
Rehabilitation of Pre Secondary School no 1 Lospalos	50	-	-	-	50
Rehabilitation of Pre Secondary School Caijo Laran Viqueque	60	-	-	-	60
Construction of Pre Secondary School Dare Hatubuilico	81	-	-	-	81
Construction of Pre Secondary School Leorema Bazartete	65	-	-	-	65
Secondary School	-	280	345	-	625
Rehabilitation of Secondary Schools 4 de Setembro Dili	80	-	-	-	80
Rehabilitation of Secondary Schools Seron Debos Suai	86	-	-	-	86
Ensino Técnico e Profissional	-	250	313	392	955
Rehabilitation of Buildings for Vocational Education in Suai	150	-	-	-	150
Rehabilitation of Buildings for Vocational Education in Díli	50	-	-	-	50
University Works	-	500	600	700	1,800
Water canalisation	10	-	-	-	10
Design and Supervision Costs of Rehabilitation of Health Posts	52	54	100	-	206
Rehabilitation of Health Post in Bereleu	27	40	37	38	142
Rehabilitation of Health Post in Beikala	25	22	19	24	90
Rehabilitation of Health Post in Afaca and Saelari	40	48	44	54	186
Rehabilitation of Health Post in Bilimau	14	46	40	51	151
Rehabilitation of Health Post in Belulik Leten	14	71	65	78	228
Rehabilitation of Health Post in Dare e Centro de Saude de CHC Vila	35	25	20	22	102
Rehabilitation of Health Post in Asulau Sare	24	48	40	45	157
Rehabilitation of Health Post in Com e Maluhira	40	72	65	70	247
Rehabilitation of Health Post in Fahilebo	26	47	45	50	168

	2005-06	2006-07	2007-08	2008-09	Total 4 Anos
Rehabilitation of Health Post in Salau and Lacluba	111	50	42	44	247
Rehabilitation of Health Post in Foholau and Rotuto	30	48	40	50	168
Rehabilitation of Health Post in Afaloicai and Waimori	36	39	33	40	148
Rehabilitation of Health Post in Oel Ulan	26	56	45	49	176
Co-Financing of Hospital Rehabilitation Dili (Guido Valadares)	3,500	-	-	-	3,500
Construction of Base Hospital Baucau	-	-	4,000	-	4,000
Construction of Base Hospital Suai	-	2,000	-	-	2,000
Jardim das Vitimas da Guerra	253	-	-	-	253
Serviço de Impostos de Timor-Leste	12	22	22	24	80
Direcção Nacional do Plano e Coordenação de Assistência Externa	28	-	-	-	28
Armazem para Bens Apreendido e Dormitorio	100	-	-	-	100
Rehabilitation of Terminals in Becora and Tacitolu	200	-	-	-	200
Traffic Signals	50	280	556	400	1,286
Construcção da Gabinete de Licenciamento	100	183	850	442	1,575
Rehabilitation of Inspection Offices in Baucau	31	-	-	-	31
New Projects	-	300	700	350	1,350
Future Public Works Projects	-	200	800	400	1,400
Postal Services Warehouses	300	400	500	600	1,800
Extension of the Government IT Network	300	200	250	500	1,250
Civil Aviation (Self Funding) Works	944	100	150	150	1,344
Ports (Self Funding) Works	100	350	350	350	1,150
Emergency Response for Water and Sanitation	768	800	800	800	3,168
Water and Sanitation Development	1,000	1,000	1,200	1,200	4,400
Electricity of Timor-Leste selected works	1,000	1,500	2,000	2,000	6,500
Construction of Min Markets (Taibesi and Others)	50	100	285	450	885
Periodical Maintenance of Roads	3,189	4,000	4,400	5,000	16,589
Improvement of Selected Roads	1,000	1,000	1,000	1,000	4,000
Flood Control Works	606	650	650	700	2,606
Public Safety Campaign	100	100	150	250	600
Rehabilitaion of Urban Roads	400	400	400	500	1,700
Bridge Rehabilitation	1,000	1,350	1,500	1,500	5,350
Emergency Response for Roads	200	200	200	200	800
Reconstruction of Youth Centres	80	-	-	-	80
Construction of Sporting Facilities	103	-	-	-	103
Capitalisation of the Banking Payments Authority	10,500	-	-	-	10,500
Education Office	260	-	-	-	260

	2005-06	2006-07	2007-08	2008-09	Total 4 Anos
Counterpart Funds with the Asian Development Bank	1,500	1,000	-	-	2,500
New Border Posts	225	375	-	-	600

ANNEX 4 SRUCTURE OF THE PUBLIC SECTOR IN TIMOR-LESTE



ANNEX 5 ACRONYMS

ADB	Asian Development Bank
BPA	Banking and Payments Authority
CBO	Community Based Organisation
CFET	Consolidated Fund for Timor-Leste
CoM	Council of Ministers
CPV	Commitment Payment Voucher
EAN	Expenditure Authorisation Notices
EKKN	Elang Kakatua Kakatua North
FDTL	Defence Force of Timor-Leste
TLRS	Revenue Service of Timor-Leste
FTP	First Tranche Petroleum
GG	General Government
GDP	Gross Domestic Product
IFI	International Financial Institutions
IMF	International Monetary Fund
MDG	Millenium Development Goal
MTFF	Medium Term Fiscal Framework
NDP	National Development Plan
NGO	Non-Government Organisation
NFPC	Non Financial Public Corporations
FPC	Public Broadcasting Corporation
PFC	Public Financial Corporations
SIP	Sector Investment Package
TFET	Trust Fund for East Timor
TSP	Transition Support Programme
TVTL	Television Timor Leste
UN	United Nations
UNDP	United Nations Development Programme
UNMISSET	United Nations Mission in Suport of East Timor
UNTAET	United Nations Transitional Administration in East Timor
WB	World Bank
WOG	Whole of Government

ANNEX 6 USER GUIDE

Introduction

The purpose of the *General Budget of the State 2005-06* is primarily to inform the National Parliament and other interested parties of the Government's intended budget for 2005-06 budget. It provides an update of the medium-term fiscal position of Timor-Leste and the Government's fiscal strategy.

Readers should also refer to the *National Development Plan* (NDP) and the *Sector Investment Packages* (SIP) for detail on the Government's medium to long term sectoral visions, goals, strategies and policies.

Styles and Conventions Used

The following notations are used:

- - (nil)
- \$m (\$ million)
- \$'000s (\$ thousand)

All currency figures are in US dollars. Current prices are used for 2003-04 and 2004-05 and constant 2004-05 prices are used for all other years. Budget year refers to 1 July 2004 to 30 June 2005. Figures in tables and in the text may be rounded. Discrepancies in tables between totals and sums of components are due to rounding.

Classification of the Public Sector in Timor-Leste

For budgetary purposes Timor-Leste adopts the IMF principles for classifying the activities of the public sector, the *Government Finance Statistics (GFS) of Classifying the activities of Government*. The public sector Timor-Leste is made up of categories: General Government; Public non financial corporations; and Public Financial Corporations. The General Budget of the State covers the financing of activities on a Whole of Government basis which includes General Government and Public Non Financial Corporations. As shown in Annex C.

Enquiries

Enquires should be directed to: The Director, Budget Office, Ministry of Planning and Finance, Democratic Republic of Timor-Leste.

